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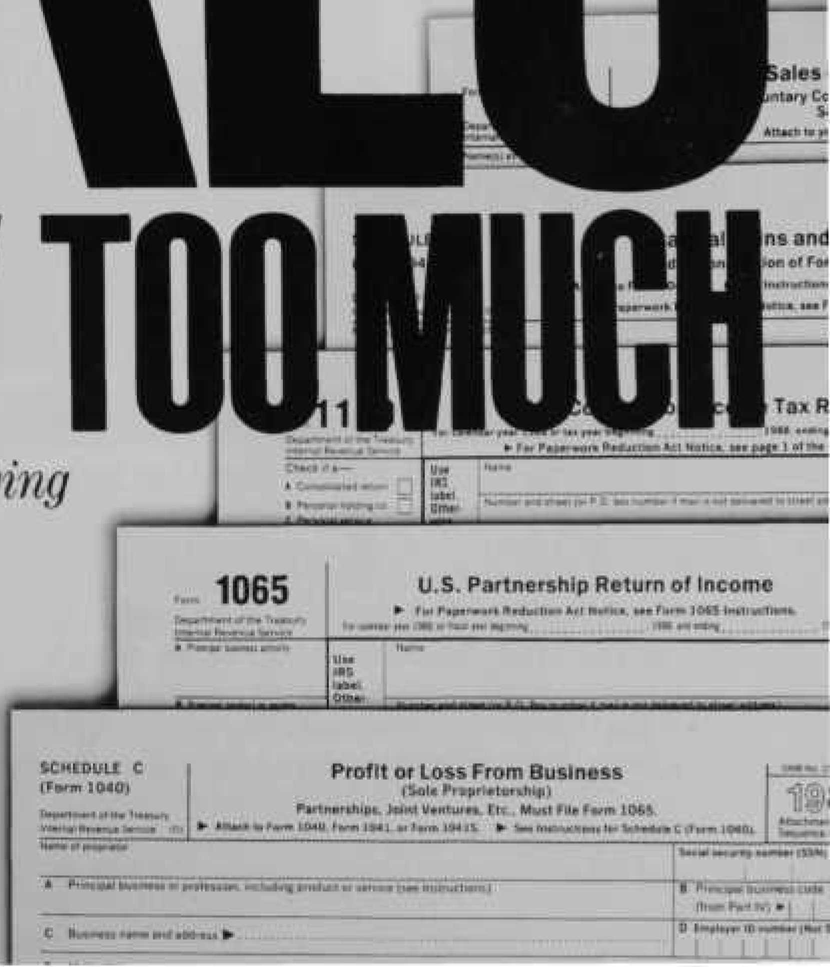

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Nation'sBusiness
VOL. 77, NO. 11

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PHOTO: T. MICHAEL KEZA

One of the tax-cutting strategies *that small companies still have time to adopt this year achieved big savings for masonry-firm owners Antonio and Maria Alho, shown with accountant Sidney Burns. Cover Story, Page 22.*

PHOTO: ©KEN TOUCHTON

Midnight basketball *is a winner with volunteers Van Standifer and David Berg. Page 86.*

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PHOTO: ©ACEY HARPER

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Planning Now To Save Later

PHOTO: T. MICHAEL KEZA

There's still time *for small firms to cut their 1989 taxes, Senior Editor Joan Szabo explains in our cover story.*

"It's later than you think" could well be the message our cover story sends this month. The tax period for which most small businesses will be filing returns in 1991 begins Jan. 1, just about 10 weeks from the time that this issue goes into the mail.

So it's none too soon to be thinking about tax strategies for 1990. To help you in this process, Senior Editor Joan Szabo talked with accountants, tax lawyers, and those with the greatest stake in this issue—small-business people themselves. She uncovered two principal problems for small-business people when it comes to tax planning: time and complexity.

"These entrepreneurs are eager for the advantages that flow from a well-developed tax strategy, such as the most effective and rewarding use of capital," Szabo says. "But the demands of running an all-consuming business often prevent them from taking the time needed to work out the details that must be addressed to put such a long-range strategy in place."

And what often passes for planning can be superficial, she adds. As one of her sources commented: "If a small-business person simply looks at where he is today taxwise, or where he was yesterday, he really is not taking advantage of planning."

The bottom line of the expert advice on that score: "Give yourself enough time to identify and to implement the strategies you want to follow."

Complexity compounds the planning problem. Says one accountant, "It is frustrating to me that the lawmakers have made the laws so complicated that even business people with a fairly high degree of competence can't safely do their own tax return."

But, as noted, the clock is running on the tax schedule. In the cover story, starting on Page 22, you'll find the type of detailed advice and suggestions you need to start to overcome the roadblocks of time and complexity that stand in the way of sound tax planning.

Robert T. Gray

Robert T. Gray
Editor

Letters

Curing The High Cost Of Health Care

As a physician, I would like to comment on Roger Thompson's cover story "Curbing The High Cost Of Health Care" [September].

Mushrooming health-care costs have closely paralleled the growth of third-party payers in the health-care system. One needs only to scan the last three decades to see the corollary.

The interposition of third-party payers, including, more recently, health-maintenance organizations (HMOs) and preferred-provider organizations (PPOs), has added significant numbers of persons who administer the health-care dollar but do not add anything to production.

Regarding physicians' incomes, it must be noted that physicians enter the work force at a significantly older age than average. Also, they are responsible for maintaining all the expenses of any similar small business. Since our society places more value on human life than on any other commodity, and since the physician is the person who is ultimately held responsible for the maintenance of human life, it is not unreasonable to suggest that the compensation be equated to the value under consideration.

Robert T. McBratney, D.O.
Tulsa, Okla.

Your article gave short shrift to what must be the health-care wave of the future: wellness programs.

Currently, insurance companies tend to cover only physician and hospital services, the costs of which are skewed toward the high end of the health-care spectrum. This leaves out low-end health-maintenance practices such as nutritional counseling, massage, and acupuncture, which in the long run cost far less. This is a bit like buying a service contract for your car that covers an engine replacement but not an oil change. It discourages everyday care in favor of waiting until the big one hits so that the insurance will cover the cost.

Kenneth R. Morgareidge
Boulder, Colo.

I was amazed to learn from your article that as a percentage of gross national product, the U.S. spends 33 percent more on health care than does Canada.

I think you missed a golden opportunity to mention the portion of total health-care cost that is really a legal expense. When doctors have to pay $25,000 and $50,000 insurance premiums every year, surely a significant portion of what we spend on health care goes to lawyers. This is primarily a result of our legal system, which permits and indeed encourages lawyers to take cases on a contingency-fee basis.

This is not permissible in Canada, and I suspect that this is the single largest reason why Canadian health-care costs are lower than ours.

PHOTO: ©GERARD FRITZ—UNIPHOTO

I am convinced that the actual deliverance of health-care services is more efficient in our private-sector economy than in any of the state-run systems, and therefore those who are promoting national health-care services for the U.S. are doing our country a disservice in the long run because it will only get more expensive and more unmanageable.

John F. Stoffel
Tuckahoe, N.Y.

The first step for an employer wanting to curb health costs is to know "insuranceese" and ask questions. Buying health insurance is no different from buying steel or equipment: You do not buy because of price alone but because it does what you want it to do at the best price.

Employers also have to make choices

LETTERS

such as passing some of the cost of health insurance to employees. Nobody says that you have to pay it alone. Health-insurance premiums reflect on your costs and your profits.
Roselyne M. Gerszewski
WESAM Inc.
Floyd, Iowa

You left out an important aspect: chiropractic care, which will reduce the high price companies pay for health-care services. Many studies have proven that both the average period of disability and the average amount of compensation awarded were lower for the chiropractic patients than for others.
Gary L. Lett, D.C.
Hattiesburg, Miss.

Racing To Set The Score Straight

In "Sports Tie-Ins Help Firms Score" [September], Glen Macnow refers to the Texas Pete car as being last year's Daytona 500 pole-sitter. The Texas Pete entry does not compete in the same division as the cars that run in the Daytona 500. The Texas Pete car competes in another NASCAR division known as the Busch Grand National Series. Daytona 500 participants compete in the NASCAR Winston Cup Series.

Perhaps Macnow meant to refer to the Texas Pete car's pole position in the Goody's 300, a race for Busch Grand National cars that precedes the Daytona 500 by one day.
Tim Spencer
Corning, N.Y.

[Editor's Note: Larry Balewski, spokesman for the Daytona International Speedway, says a Texas Pete car driven by Mike Swaim was a pole-sitter in the Goody's 300 race in February 1988 and did not compete in the Daytona 500.]

More On VAT

I must take exception to the letter by Garwood I. Platt ["Defending The VAT," August] regarding the value-added tax.

Mr. Platt compares the VAT to the corporate income tax and argues that the consumer bears the ultimate burden in both cases. True, but this in no way justifies either tax. Moreover, the VAT has a property distinct from the corporate tax. As the European experience demonstrates, the VAT can be increased frequently and substantially to finance increases in government spending, without people generally being aware of the extent to which the government is burdening them with additional taxes.

Also, while Mr. Platt argues for a VAT as a replacement for the corporate income tax, it is wishful thinking to expect any current revenue source to be eliminated on a revenue-neutral basis simply under the guise of economic efficiency. If we were creating an all-new tax system, the case conceivably could be made for a stand-alone VAT. But with budget deficits and spending proclivities what they are, it is difficult to imagine a VAT as anything other than an add-on to the current tax system.
Roy E. Marden
New York

Picking Up The Pieces

"Our Crumbling Infrastructure" [August], although extensive, barely touches the surface of perhaps the most critical issue in the financing of highways and bridges: the diversion of highway-user taxes, fees, and tolls to nonhighway purposes.

In New Jersey, for example, since the early 1950s (at which time the highways and bridges in our state began to deteriorate), more than \$3.8 billion in highway-user taxes and fees have been diverted to purposes having nothing to do with highways, bridges, and public transit. In its fiscal 1990 budget, New Jersey will divert more than \$300 million from user taxes and fees to nonhighway—to be sure, nontransportation—purposes.

New Jersey is not alone, of course. Other states divert road-user taxes, fees, and tolls paid by motorists and truck operators to nonhighway, nontransport programs and projects. These diverted funds have often been applied to special concerns. In effect, special engineering has been financed at the expense of civil engineering.

America enjoys sustained economic growth, and motorists and truck operators can go cheaply, efficiently, and safely from Point A to Point B. But politicians must stop stealing from Peter to pay Paul. Paul should pay his own way, and Peter should be allowed to use his money to build needed bridges and highways.
Samuel L. Cunninghame
Executive Director
New Jersey Motor Truck Association
East Brunswick, N.J.

Your sidebar "The Private Path To New Highways" piqued my interest because while vacationing in Italy, I experienced firsthand a privately owned and operated highway, the Autostrada del Sol, or Highway of the Sun.

It was run much more efficiently than most of the publicly operated facilities I observed in Italy. From what I understand, this has long been a pri-

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vately operated concern and has proven very successful.

Also, the Autostrada del Sol is no minor or insignificant example of such an operation because it is a major, high-speed, multilane highway and an important north-south artery of the Italian peninsula.

It seems that examples such as this deserve close and enthusiastic examination here in the U.S., because they represent a goal we would all appreciate: efficiently run facilities without sky-rocketing taxes to fund them.

Thomas R. Lindberg
West Hartford, Conn.

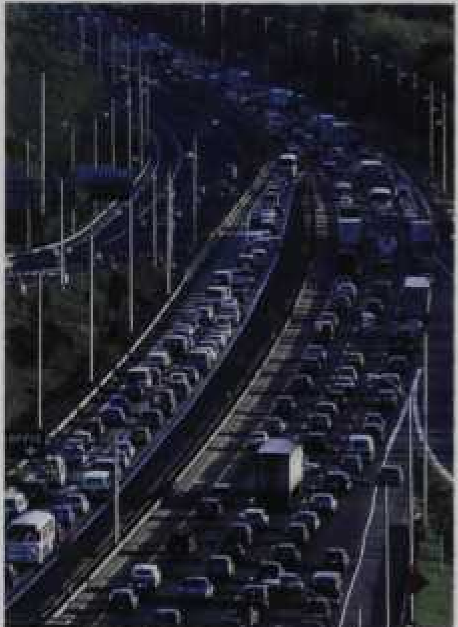

PHOTO: ROGER FOLEY—FOLIO INC

Because infrastructure is not a glamorous or exciting issue, it typically does not receive as much attention from the American public or the media as it deserves. This neglect has caused America's roads, bridges, railways, airports, seaports, and waterways to become "second-class citizens" in too many instances.

America's business leaders must become involved in the effort to revitalize our infrastructure. It is not a "given," and for every day that we delay addressing this problem, our cost of doing business increases. At stake are the health of our domestic economy and our competitiveness in international trade.

Daniel J. Spigai
Alexandria, Va.

Since our company is in the business of helping to rebuild America's infrastructure, we are always looking for opportunities to educate the public about this issue. Your article will help us tremendously because it is an excellent piece of research, well written and concise. It is very credible and timely. Joan Szabo and your staff are to be commended for preparing such a comprehensive overview of a complex and multifaceted issue.

Linda R. Mastaglio
Greiner Engineering Inc.
Irving, Texas

Drug Testing

In his Letter to the Editor [September], Lewis L. Maltby of the American Civil Liberties Union incorrectly implies that current drug testing is inaccurate. Many court decisions and the wide experience in the government and private sectors show that this implication is false. Maltby writes that there is "no reliable rating system ... to identify those labs with high-quality standards."

In April 1988, the National Institute on Drug Abuse (NIDA) instituted a certification system for those laboratories doing drug testing on federal employees. It published vigorous guidelines which require confirmatory testing of presumed positive drug screens, the right of employees to challenge test results, and other measures aimed at ensuring that testing is accurate and reliable. NIDA closely monitors the labs it has certified and will revoke its approval if even one false positive occurs in a quality-control test. More and more private employers are requiring that their labs be NIDA-certified, and pending federal legislation would extend the guidelines to the private sector.

Maltby also writes that testing programs negatively affect the morale of the majority of employees who are not drug abusers. Last August, a Washington Post/ABC poll found that 44 percent of the American public believed that drugs were the most important problem facing the country today. The Gallup Organization reported that month that 3 out of 4 people thought the average worker should be subject to drug testing. Morale problems are caused by the minority of workers who abuse drugs, not by reasonable actions taken to deal with this crisis.

The real issue for employers and employees is not drug testing but how to devise effective means to reduce drug abuse in the American workplace. Drug testing should be only one element in a comprehensive substance-abuse prevention program (including alcohol) aimed at educating and, where necessary, rehabilitating employees so they can stay on the job.

Robert T. Angarola
Former General Counsel
White House Office of Drug Abuse Policy
Washington, D.C.

ENTREPRENEUR'S NOTEBOOK

A Team Approach From The Start

By William J. Stolze

There are two ways to start a company—alone or as a team. Whether to team with one or more other entrepreneurs is a complex decision that depends mostly upon the personal qualities and skills of the individuals.

My opinion is that starting a company with a team rather than as an individual is usually desirable. My own experience proved that. I founded RF Communications in 1961 with three associates and built it into an international leader in the radio-communications field. We had 1,200 employees and were operating in more than 100 countries when we merged with Harris Corp. in 1969.

The team approach is not without its problems, however, and a person starting a business should consider carefully whether to go it alone or form a team. Let me discuss some of the pros and cons of teaming.

First, the factors in favor of join-

Investors like teams. People investing in new ventures, either individuals or formal venture-capital organizations, seem to be much more comfortable with a team than an individual entrepreneur.

Teaming arrangements are not trouble-free. Here are some reasons against joining with others.

Dilution of ownership. Many entrepreneurs are unnecessarily generous in sharing ownership in their new venture. Contributing to this is the common belief that the stock in their venture has no value. In his book, *Entrepreneurship for the Eighties* (Prentice-Hall), Gordon Baty suggests that stock in their venture, i.e., a share of the ownership, may be the most valuable thing a new company has. Clearly, it is unwise to give away ownership unless the recipient can contribute in a meaningful way. He also suggests that sharing ownership should only be done as a way of providing incentive for future contributions, not as a reward for past contribu- [...] here are other, less-expen- [...] ys to give rewards.

[...]ible serious conflict. I have [...]een a startup business that [...] sooner or later, experience [...] among the team members. [...]nind, the question is not [...]r there will be conflict but [...]d it will be. Conflict can be [...] by things such as the emo- [...] train of running the new [...]s, a feeling that one partner [...]arrying his or her weight, [...] personal incompatibility, a [...] who feels that a marital rela- [...] has been hurt by the de- [...] of the business, etc.

[...]culty of being equal and un- [...]rmed by a team of entrepre- [...]l as president. The others [...]s, such as vice president- [...]arketing. All are almost al- [...] well. On the board, everyone [...] from the president being [...] equal at other times. This can [...]leal with.

[...] undo. When you bring in a [...]d director and give that per- [...]sents a commitment both for [...]npany. You may hope the commitment is greater for the individual, but in fact it may be greater for the firm. If team members do not meet expectations or if their degree of commitment changes, it is very difficult to remove them from the job, even harder to remove them as directors, and it may be impossible to get the stock back. So be careful.

In summary, teaming arrangements in most startup companies can be a powerful strength that greatly increases the probability of success. But they almost always generate problems of some sort that may be hard to resolve. To be aware of this is to some extent to be prepared. ■

William J. Stolze has been an entrepreneur and corporate executive. He now runs a consulting firm and pursues other activities to help start-up companies. This article was adapted from his new book, STARTUP—An Entrepreneur's Guide to Launching & Managing a New Venture *($19.95; Rock Beach Press, 1255 University Ave., Rochester, N.Y. 14607).*

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

LETTERS

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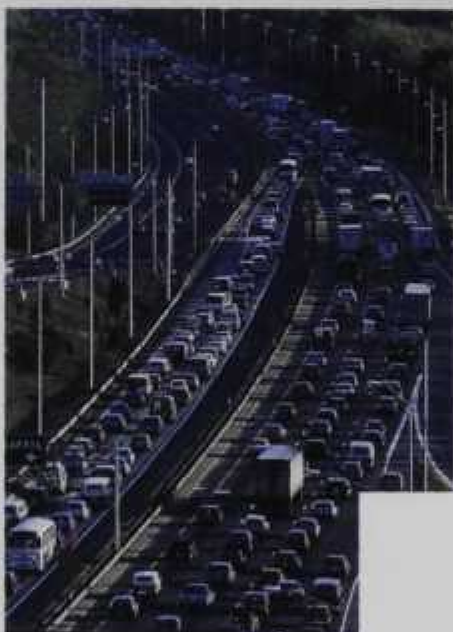

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Robert T. Angarola
Former General Counsel
White House Office of Drug Abuse Policy
Washington, D.C.

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A Team Approach From The Start

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My opinion is that starting a company with a team rather than as an individual is usually desirable. My own experience proved that. I founded RF Communications in 1961 with three associates and built it into an international leader in the radio-communications field. We had 1,200 employees and were operating in more than 100 countries when we merged with Harris Corp. in 1969.

The team approach is not without its problems, however, and a person starting a business should consider carefully whether to go it alone or form a team. Let me discuss some of the pros and cons of teaming.

First, the factors in favor of joining with others.

Complementary skills. The most important benefit of starting a company with a group of individuals rather than alone is that it brings together complementary skills. Most people starting a company have never run a business before, and it would be quite unusual for them to have all the skills needed. Be sure each team member brings key skills to the situation. More than three or four people are unlikely to be needed, since in most startups there are only a few key skills required.

Risk reduction. Companies formed with teams of three or four people have lower risk than companies formed by one person. If the founder should be unable to perform his or her duties, one of the other team members could step in. The chances for survival are better with a team.

Loneliness. Being the head of a new company is a very lonely job. It seems that every decision you make, if wrong, might mean failure. I describe managing a startup as being equivalent to walking down a road covered with banana peels. If you step on one, the game is over. A team of equal or near-equal partners makes it possible to share the emotional burden. For me, this was very important. I do not think I could have started a business alone.

Investors like teams. People investing in new ventures, either individuals or formal venture-capital organizations, seem to be much more comfortable with a team than an individual entrepreneur.

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Companies formed with teams of three or four people have lower risk than companies formed by one person. The chances for survival are better with a team.

Possible serious conflict. I have never seen a startup business that did not, sooner or later, experience conflict among the team members. In my mind, the question is not whether there will be conflict but how bad it will be. Conflict can be caused by things such as the emotional strain of running the new business, a feeling that one partner is not carrying his or her weight, simple personal incompatibility, a spouse who feels that a marital relationship has been hurt by the demands of the business, etc.

Difficulty of being equal and unequal. In most companies formed by a team of entrepreneurs, one is usually selected as president. The others may hold lesser key positions, such as vice president-research or vice president-marketing. All are almost always directors of the firm as well. On the board, everyone is equal. The problem results from the president being boss part of the time and an equal at other times. This can be a difficult relationship to deal with.

Bad decisions are hard to undo. When you bring in a team member as an officer and director and give that person stock in the firm, it represents a commitment both for the individual and for the company. You may hope the commitment is greater for the individual, but in fact it may be greater for the firm. If team members do not meet expectations or if their degree of commitment changes, it is very difficult to remove them from the job, even harder to remove them as directors, and it may be impossible to get the stock back. So be careful.

In summary, teaming arrangements in most startup companies can be a powerful strength that greatly increases the probability of success. But they almost always generate problems of some sort that may be hard to resolve. To be aware of this is to some extent to be prepared. NB

William J. Stolze has been an entrepreneur and corporate executive. He now runs a consulting firm and pursues other activities to help start-up companies. This article was adapted from his new book, STARTUP—An Entrepreneur's Guide to Launching & Managing a New Venture *($19.95; Rock Beach Press, 1255 University Ave., Rochester, N.Y. 14607).*

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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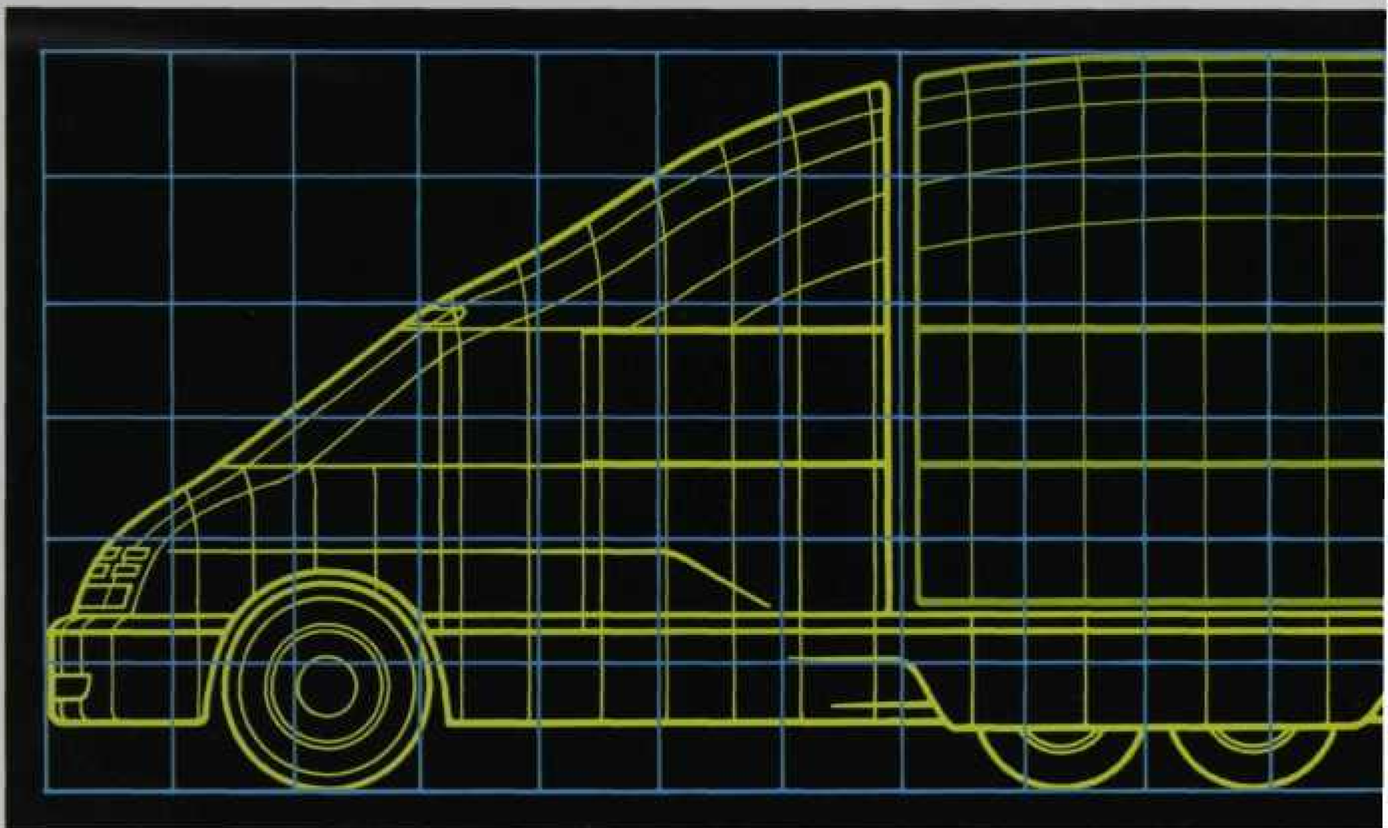


Small-Business Update

Early intelligence on resources to help you take advantage of the changing business climate.

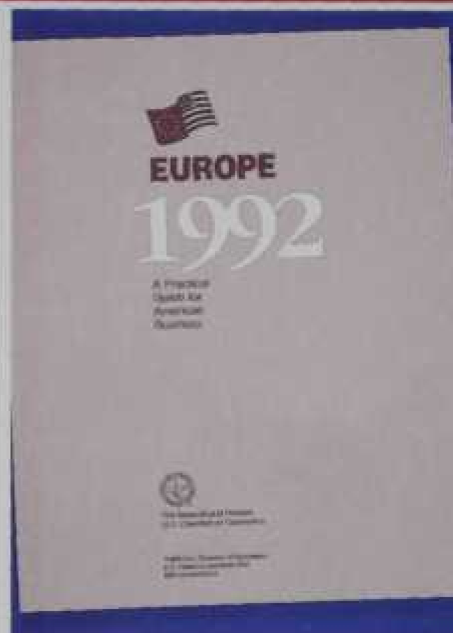
INTERNATIONAL TRADE

A Guide To Update Business On EC92

The business landscape of Europe will keep changing through the end of 1992 and beyond, as the 12 member nations of the European Community (EC) seek to establish a single internal market. Information on the European market-unification process gleaned from seminars and guidebooks can become dated quickly. The U.S. Chamber of Commerce is seeking to keep the American business community abreast of the EC92 process with a book that will be updated through quarterly bulletins.

The paperback book, *Europe 1992: A Practical Guide for American Business*, was written by members of the Chamber's International Division staff, and the publication "focuses on what a business person really needs to know," says William T. Archey, vice president/international for the Chamber.

Gerald Greenwald, vice chairman of Chrysler Motors Corp. and chairman of the Chamber's subcommittee on EC 1992, says the book distills "an enormous amount of information into a clear and relatively brief summary of the EC 1992 process—its objectives, probable outcomes, and likely impact on U.S. interests—which the reader can use to form his own judgments."



The book costs $25 for Chamber members and $30 for nonmembers. The update service is an additional $20. All orders are subject to an additional $2.50 shipping and handling charge. Reduced rates are available for bulk orders. To order or obtain more information, write the International Division, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062.

HEALTH CARE

Health Insurance Tailored For Small Companies

A new group health insurance plan that promises lower costs for small businesses in Denver drew more than 6,000 inquiries and about 80 applications in its first three weeks, its marketing arm reports. "We didn't anticipate this level of response," says William N. Lindsay, president of Benefit Management & Design Inc., a Denver consulting firm involved in designing and marketing the new insurance plan.

The plan, marketed also by independent insurance agents in the Denver area, is offered by the United States Life Insurance Co. and is designed for small firms unable to afford conventional insurance for their workers.

Called Shared Cost Option for Private Employers (SCOPE), the plan was conceived by the Colorado Business Coalition for Health and was developed in conjunction with the Denver Chamber of Commerce, local hospitals, and the medical society. It is available only to employers with fewer than 50 workers, and it requires that employees use only those hospitals and physicians under contract with SCOPE.

The plan cuts costs by shifting some expenses to employees and by using physicians and hospitals able to achieve maximum cost efficiency. Monthly premiums are about half the national average. A 35-year-old male, for example, pays $48.58 a month for single coverage or $138 for family coverage.

An employer may pay all or part of the employee's monthly premium, but the employee must pay $15 for each visit to a doctor's office, a $250 annual deductible, and $2,500 on the first $5,000 in hospital charges. Physical examinations are free.

ENTREPRENEURSHIP

Symposiums For Improving Small Firms' Success

"Small businesses that fail," says Adrienne Zoble, "do so because they don't know what they want to be when they grow up." Zoble is with the BellSouth/Small Business Administration Success '89 Symposiums, a program aimed at improving the marketing clout and success rate of small businesses.

A daylong, live telecast of a condensed version of the symposiums is scheduled to begin at 8 a.m. on Nov. 9 from the Washington BizNet studios of the U.S. Chamber of Commerce to nine BellSouth-region cities. Attendees will hear from successful small-business owners on topics including how to improve your selling skills, identifying your customer base, and financial tips, traps, and tactics for small businesses.

The program will be televised to various locations in Albany, Ga.; Mobile, Ala.; Miami; Jackson, Tenn.; Jackson, Miss.; Shreveport, La.; Raleigh/Greensboro, N.C.; Greenville/Spartanburg, S.C.; and Charleston, S.C. The cost is $59 per person. Call 1-800-331-2355 for details on location and registration.

The teleconference will be repeated next year at locations to be announced.

An Equal Footing On Trademarks

The new federal trademark legislation that goes into effect Nov. 16 will give a fairer shake to small business, according to Robin A. Rolfe, executive director of the United States Trademark Association, in New York. "It puts big and small business on an equal footing," she says.

Under current law, businesses have had to use a trademark in interstate commerce before it could be registered. This led companies that could afford it, usually larger firms, to rely on "token use"—such as shipping to another state a small quantity of a product carrying the trademark solely to meet the actual-use requirement for a trademark application. Sometimes this was done long before the product was ready for full-scale distribution, in effect "reserving" the trademark for the company until the firm was ready to use it.

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ENTREPRENEURSHIP

don't have the mechanisms to create this fictitious use," says Rolfe.

The new law allows businesses to file an application for trademark registration based on a bona fide intention to use the trademark within a reasonable time.

Once an intent-to-use application is approved by the U.S. Patent and Trademark Office, a company has six months to show that the trademark is in use. One automatic six-month extension to make use can be obtained, and as many as four more six-month extensions may be permitted for good cause.

Businesses may still file based on actually having used a trademark in interstate commerce first, but a token sale will no longer be considered use in commerce.

The new law reduces the registration and renewal periods from 20 years to 10 years. However, registrations can be renewed without limitation so long as the trademark is used in interstate commerce.

It also will be easier for businesses to register their trademarks with the assurance that the names they select will be available nationwide when a product or service is ready for market, according to Rolfe. "However, it will also place a greater responsibility on businesses to search the federal trademark register before selecting a new business or brand name in order to assure that someone else has not already applied to register it, even though it is not yet being used," she says.

For further information on the new law, call the Patent and Trademark Office's public service center at (703) 557-5168.

SBA Amends 8(a) Rules On Minority Firms

The Small Business Administration has revised its regulations for its Minority Small Business and Capital Ownership Development Program, commonly known as the 8(a) program.

SBA says the new regulations are designed to sharpen the program's goal of helping socially and economically disadvantaged individuals and businesses.

The new rules change the length of program participation from seven to nine years; require SBA to process 8(a) applications within 90 days; require applicants to have management or technical experience; and dictate that participating firms be at least 51 percent owned by eligible business owners.

The new rules also establish stiffer penalties for those who misrepresent their status for 8(a) eligibility, and they require competition among 8(a) firms for most contracts worth more than $3 million.

PERSONNEL

States Forging Ahead On Mandated-Leave Proposals

Opponents of mandated leave have held off congressional efforts in that area, but the number of states enacting such legislation continues to grow. This year, North Dakota, Washington, and West Virginia enacted leave laws, bringing to 11 the number of states requiring certain employers to give workers leave to deal with various types of family-related matters.

States that acted earlier include Vermont, where a maternity-leave law now provides one year of leave for female employees who have worked 30 hours a week or more for at least a year.

Among eight states that have a small-business exemption in their mandated-leave statutes, the average threshold is 45 employees; the low is Kentucky (8 employees), the high is Washington (100 employees).

Bills to require employers to grant workers unpaid leave in connection with family and medical situations are pending in Congress. The legislation, if enacted, would initially cover companies with 50 or more employees, and that threshold would fall to a lower level after three years.

Small businesses of all sizes remain strongly against government-mandated working conditions. And small business is not placated by the proposed exemption because experience has shown that exemptions granted in original regulatory statutes are often removed in later years.

THIS MONTH'S NB TIPS

Small-Business Answers

✔ The Small Business Administration's Answer Desk has a computerized answering system with information on running a business. Five taped messages provide information on starting a business, financing a business, the SCORE program, SBA services and local assistance, and facts about small business and business data. The toll-free number is 1-800-368-5855; in the Washington, D.C., area, call 653-7561.

Graying America

✔ How can your business ensure that it thrives in a highly competitive, graying society? One way is to meet the needs of consumers who are age 45 and over. Some products and services demanded by those consumers are addressed in PrimeLife Marketing's new publication, *Outstanding Business Opportunities In A Graying America*. To order, send a check or money order for $4.95 to The Data Group/PrimeLife Marketing, 2260 Butler Pike, Suite 150, Plymouth Meeting, Pa. 19462. NB

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What's happening in the corridors of power that will affect your business.

GOVERNMENT

Sen. Nunn Briefs Business Group On Soviet Changes

As communism unravels in eastern Europe, the NATO alliance needs to keep its strategy current with rapid changes in Soviet policy, Sen. Sam Nunn, D-Ga., told a Washington business audience.

PHOTO: T. MICHAEL KEZA

Sen. Sam Nunn

"NATO's strategy must distinguish between those areas where we move ahead and where we stand firm," said Nunn, who is chairman of the Senate Armed Services Committee. Noting that the Soviet Union continues to modernize its nuclear capability, he warned that the West should make no arms-reduction agreements that could be reversed more quickly by Moscow than by the West.

Western economic policy toward the Soviets must not include assistance that would allow that nation to "defer the hard choices between guns and butter," Nunn said. The senator addressed the Breakfast Bunch, an organization of Washington-based corporate representatives organized by the U.S. Chamber of Commerce.

LEGISLATION

Proposal On Venture Capital

The House Small Business Committee chairman is offering a plan to provide more capital for entrepreneurs.

Rep. John LaFalce, D-N.Y., is proposing establishment of a federally chartered, private corporation that would buy small-business loans from banks and package them as securities for sale to private investors.

By converting loans to cash, banks would have more capital to lend.

THE ECONOMY

No 'Soft Landing' Needed

The economy will continue to expand moderately, with inflation gradually declining and unemployment remaining low, at least into the second half of 1990, the president's top economic adviser predicted.

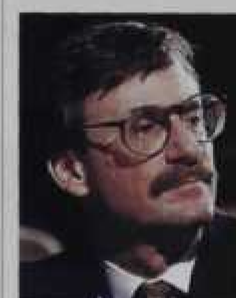

PHOTO: © MARK REINSTEIN—UNIPHOTO

Michael J. Boskin

Michael J. Boskin, chairman of the President's Council of Economic Advisers, told a business group in Washington that the gross national product will grow at an annual rate of 2 to 2.5 percent for the next several quarters, then pick up in the middle or the end of next year.

"We believe the economy is capable of sustained growth, low unemployment, and controlling inflation simultaneously," Boskin said. A "soft landing"—an economic slowdown that merely would avoid a recession—would not be good enough, he added. "The economy can and should do better than that."

Boskin noted that the current economic expansion is now the second-longest in history, surpassing the expansion of World War II. "Only the one that was extended by the Vietnam War is longer," he said.

ENVIRONMENT

Clean-Air Proposals Extend To Consumer Products

The proposed strengthening of the Clean Air Act could lead to new federal controls on the content and packaging of as many as 750,000 consumer products, Congress has been told.

Harvey Alter, manager of the Resources Policy Department of the U.S. Chamber of Commerce, said the regulations would affect products for "a universe of commercial, household, and personal-care uses." He commented in testimony to the Senate Environment and Public Works Committee, which is considering amendments to the Clean Air Act.

Alter noted that the amendments (S. 1630) target any products, including containers and packaging, that could release ozone precursors at any stage from initial use through disposal and decomposition. Ozone precursors are chemicals that are converted through natural processes into ground-layer ozone, which contributes to pollution problems. "Companies will not be able to do what S. 1630 calls on them to do without destroying the functionality or consumer safety of the products," Alter said.

Ozone precursors could be controlled more effectively by targeting hazardous and municipal solid waste, rather than consumer products, Alter added.

TRADE

Bentsen Says Trade Law Is Working As Intended

Sen. Lloyd Bentsen, D-Texas, says the 1988 Omnibus Trade and Competitiveness Act is working exactly as Congress had hoped it would. Since the measure's passage, the Japanese have begun buying American cellular telephones, Europeans have agreed to import some soybeans, and Koreans have begun amending nearly 40 laws that impede agricultural and manufacturing imports, said Bentsen.

Still, the new trade law has its limits, Bentsen told trade specialists meeting at one of the series of forums sponsored by the International Policy Division of the U.S. Chamber. Capital costs are higher here than in other countries, he said, largely because Americans' savings do not meet capital needs. "One of the biggest problems concerning this country's competitiveness is it's too dependent on foreign capital for debt service," Bentsen said.

The issue of savings and investment has been a major controversy in Congress this year because of President Bush's proposal to reduce the capital-gains tax rate as the most effective way to spur investments. Bentsen countered with a plan based on individual retirement accounts, which lost their tax-deductible status under the 1986 tax-reform law. NB

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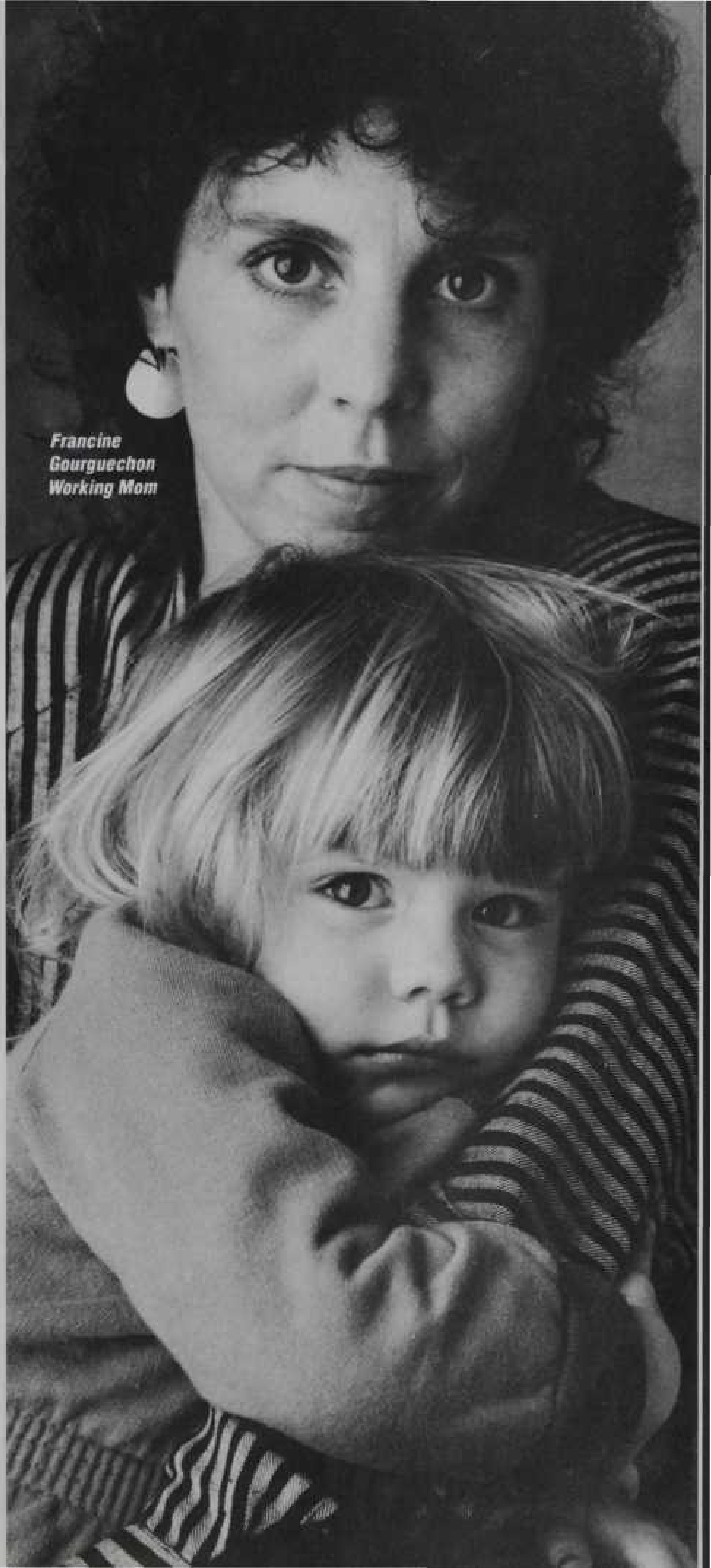

Making It

Growing businesses share their experiences in finding and marketing new products and services.

PHOTO: © PHILIP RICK THOMAS

Building To Last

Jim Buck builds 'em like they used to.

Buck, 37, owns Northern Timber Framing Inc., of Grand Rapids, Ohio, which erects all-wooden house frames. Using labor-intensive techniques from earlier centuries, Northern's craftsmen build frames made of solid, hand-cut oak posts and beams, wooden joinery, and oak pegs; they use no nails or metal connectors. Such structures are extremely durable and also are self-supporting, requiring no interior load-bearing walls.

Northern's techniques were the norm for wooden construction from the Middle Ages until the 19th century. Then they were superseded by cheaper and faster stud-frame construction.

During the past four years, Buck, a former fiber-optics engineer for Ohio Bell, has built about four dozen frames throughout the country. Typically, five or six of his craftsmen work in the shop, forming and shaping the timbers and joinery, while three others work at the construction site.

"We buy our timbers from an Amish gentleman who cuts them for us," Buck

Jim Buck's hand-crafted *timber frames—a model is behind him in the photo above—become homes like the one at right.*

PHOTO: ©PHILIP RICK THOMAS

says, "and then we shape them with chisels, hand planes, and rawhide mallets." The joinery is cut and put together at Northern's shop, to make sure everything fits perfectly; then it is taken apart and shipped to the building site. It takes Northern about three days to erect a frame and two to three weeks more to enclose it.

Soaring peaks, wooden arches spanning broad open spaces, and an abundance of exposed, hand-oiled beams—such features dramatically define the interior of one of Northern's frames. The exterior can be adapted to almost any architectural style.

Erected frames have cost between $15,000 and $200,000, with finished houses (completed by a builder of the owner's choice) ranging from $130,000 to $10 million.

Buck first considered starting a business in 1979, after building his own frame home. "I had this little seed planted in my mind: This was different, very few people were doing it. But in '79, the economic times weren't too nice."

For the next six years, Buck studied the competition, cultivated potential employees, prepared a comprehensive business plan, and sought lenders that were making small-business loans.

Despite his preparation, Northern almost foundered in the first year after it opened in 1985. The problem was customers: For eight months, there weren't any. Ads in a national magazine yielded a few inquiries, but most callers backed off because Northern was new and the only home Buck had built was his own.

Loans, mortgages, and Buck's willingness to work two jobs—he continued working full-time for the phone company while running Northern—kept the business solvent. Finally, two customers signed contracts in the same week.

A continuing problem, Buck says, is the extent of consumer misconceptions about timber-frame structures. "I wish I had a nickel for every time somebody said, 'Anything like a log cabin?' A timber frame is unknown to 99 percent of the public." Buck uses workshops, newsletters, and photos of completed houses to explain timber-frame construction to prospective clients. He also encourages prospects to visit his own timber-frame home, even offering to pay potential customers' plane fare—*if* they sign a contract.

Thanks mainly to referrals and word-of-mouth, Northern is operating near its capacity of around 15 frames a year. Buck hopes to increase production next year by only two frames.

His other short-term goals are equally modest: to continue to educate people on timber framing and to add more shop space. In the long term, Buck wants to refine his woodworking skills and those of his crew, to become known as the best builder of timber-frame homes, and, like his medieval brothers before him, to leave behind buildings that are lasting monuments to his craft.

Perhaps Buck's goals aren't so modest after all.

—Marcia King

When He Hears, Others Listen

Sotirios J. Vahaviolos is a man whose business is to hear things most people don't. Sometimes he wishes he didn't. His work makes him acutely aware of the dangers posed to structures of all kinds by metal fatigue.

Take airplanes, for example. A plane is like a balloon, Vahaviolos explains. When pressurized from inside, it expands. When pressure is released, the plane contracts. That process occurs over and over again during the life of a plane. After enough cycles, cracks will appear in the fuselage. If the airlines did not make repairs, those cracks could get bigger and bigger, and the plane could come apart.

Just as people groan when they have aches and pains, structures make noises when they are under mechanical stress. Vahaviolos, 43, has built a company on that fact: He is founder, president, and chief executive officer of Physical Acoustics Corp., a Princeton, N.J., firm that develops and manufactures instruments to detect acoustic emissions. Those are the high-frequency noises that can reveal structural weaknesses in everything from airplanes to bridges to storage tanks to high-pressure steam pipes.

Vahaviolos grew up in Greece, where as a child he ripped apart machinery and rebuilt it for fun. He came to the U.S. to study engineering at Fairleigh Dickinson University, in New Jersey, and went on to get his M.S. and Ph.D. in electrical engineering from Columbia University.

He started his career at American Telephone & Telegraph's Bell Laboratories, where the concept of acoustic emissions was developed in the late 1940s. When Vahaviolos came along 20 years later, he worked out computerized solutions to the long-standing problem of how to filter out irrelevant background noises during acoustic-emission testing.

With the backing of several venture-capital firms, Vahaviolos struck out on his own in 1978, to explore industrial applications for acoustic-emission technology. AT&T gave him its blessing, in the form of a license to use technology he had developed while working at Bell Labs; it also became his first customer.

Physical Acoustics makes sensors—specialized microphones about the size of champagne corks—that can pick up acoustic emissions when they are placed on the surface of a structure. Cables carry that information to small computers that analyze it and display the locations of the noises. In that way, problem areas can often be located be-

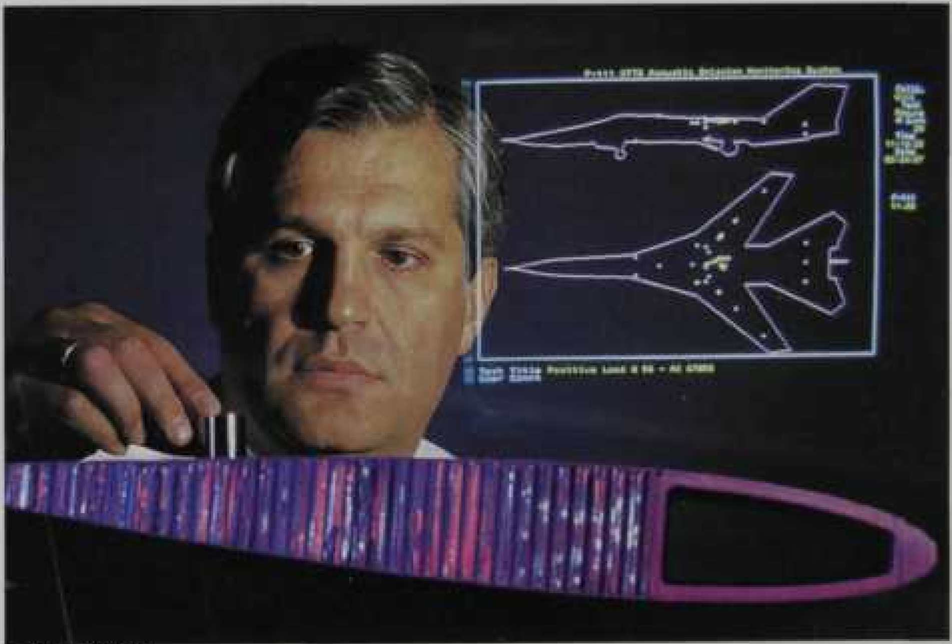

PHOTO: © BRYAN ALLEN

A sensor like the one *Sotirios J. Vahaviolos is holding can pick up high-frequency noises that warn of defects in aging aircraft. The locations of those noises can then be displayed on a computer screen.*

fore they could be detected by other methods, such as visual inspection. Because structures need not be dismantled before they are tested, the acoustic-emission method is called nondestructive testing.

Physical Acoustics sells a basic testing system for between $25,000 and $100,000. Vahaviolos says the $25,000 system would be sufficient to test an airplane's wing, but a $100,000 system would be needed to test an entire Boeing 747. Physical Acoustics provides training in the use of its equipment that ranges from a few days to a month, depending on how much a client already knows about nondestructive testing.

Approximately 70 percent of the company's business comes from the aerospace, petrochemical, and utility industries; the rest is from research institutions and materials-testing labs. Half of Physical Acoustics' income comes from outside the U.S.; Vahaviolos was one of the first foreign scientists invited by the Soviet Union to inspect the site of the nuclear power plant accident at Chernobyl.

Although the privately held company's sales have been growing more than 30 percent a year—revenues this year will be around $17 million—and it now has 150 employees, Vahaviolos says that many people in business and government have been slow to abandon older inspection methods.

"Some people thought I was crazy, listening to abnormal material sounds," Vahaviolos recalls, "but acoustic-emission nondestructive testing is an industry now."

And, he adds, "we believe very strongly that we can avoid catastrophes."

—Barbara E. Thornbury

PHOTO: ©ACEY HARPER

In the collage behind her, *artist Erika King tried to capture the excitement of the Miami Grand Prix for the event's producer, Miami Motorsports.*

Corporate Art

It's wonderful how our lives lead us to what we want to do," says artist Erika King, whose innovative collages hang in corporate lobbies and executive suites across America.

King creates and sells corporate art that tells a story. She takes photos, clippings, ads, and other images, lays them out on canvas, then brings them all together with painting to produce a panoramic impression of a company's history, role, or location.

Bank of America, USAir, Burger King, C.I.T. Financial, G.D. Searle, and Texaco are only a few of King's customers.

Spread across the floor of her Miami studio recently were the raw materials for her latest composition—a collage for the American Express Co.'s Latin American headquarters in Coral Gables, Fla.

Since 1975, some 150 firms have commissioned her to produce collages incorporating an endless assortment of company memorabilia, ranging from old product labels and magazine ads to employee snapshots and faded newspaper cuttings. King's medium can accommodate almost anything that can be readily glued to stretched canvas.

King, who was born in Philadelphia and grew up in Europe when her father's work took her parents there, says she fell into her unusual business through a series of coincidences. While living as a budding artist in Europe, she happened to see a collage by artist Robert Rauschenberg. "I said, 'That's what I want to do.'" Later, by chance, she met a collage specialist who taught her the technical side of the art. Still later, she returned to the U.S., where she mingled with architects and interior designers for commercial projects. "That's when I came up with the idea for collages that tell company stories," she recalls.

As it is for many another artist, marketing is the toughest part of her business. King has proved better at it than many of her colleagues.

"I do a lot of networking," she says. "I go to office openings and stay in touch with a lot of my friends in the building business—lawyers, bankers, and so on. I find those social contacts are important. I also stay in touch with my art dealers and visit the dealers in New York two or three times a year."

About one-third of King's business comes from her own contacts with corporations, she says. "I have done a lot of pounding on doors. I'm very persistent. My latest project took six years to land. I've been working on one company for 10 years. These things take time. Periodically, I pick up the phone and call them again."

King believes that to expand her business, she must broaden her reputation nationally. She has been working at that, too.

A couple of years ago, she bought a mailing list of corporations that are known to collect art. She sent each company a brochure, cover letter, and resume. "Very little response," she recalls.

She next hired a public-relations firm to secure national media exposure. When that too proved disappointing, she let the contract lapse. Although her collages have appeared in national magazines such as *Playboy* and have adorned the covers of annual reports of major corporations, King confides that she has "never had an article about what I do in a national publication." Now she has.

—Donald C. Bacon

COVER STORY

Taxes: Don't Pay Too Much

By Joan C. Szabo

As business owners, Antonio and Maria Alho had two concerns in common with many other entrepreneurs. They knew they should be setting up a retirement plan, and they felt they were paying too much in taxes.

When it came time to map out a year-end tax strategy last year, the owners of Alho Masonry in Silver Spring, Md., found a way to deal with both problems in one step. With the help of their accountant, the couple achieved substantial savings by taking advantage of a tax-planning opportunity they had never fully explored before. They established a defined-benefit pension plan for themselves and their employees.

Under the federal tax laws, annual contributions made by an employer to a qualified retirement plan can be paid with pretax dollars and accumulate tax-free until the funds are withdrawn at retirement.

The key to the tax-saving plan is the organization of the Alhos' company as a Subchapter S corporation, in which they and their two daughters are the only shareholders. In that type of corporation, earnings and losses are passed directly to shareholders, who account for them in their personal income tax returns.

To accomplish the tax savings, the couple invested approximately $50,000 of the company revenues in the retirement plan. That action reduced the amount of taxable income flowing back to them under the Subchapter S arrangement, thereby cutting their federal and state tax bills by $20,000 and establishing a retirement plan from which they will draw future income. They will realize similar savings every year, says their adviser, Sidney J. Burns, a certified public accountant.

Tax professionals say that until the Alhos began seeking tax-saving opportunities, they were fairly typical of the many small-business owners who are so involved in running a business and so bewildered by tax laws that they often fail to recognize the advantages of

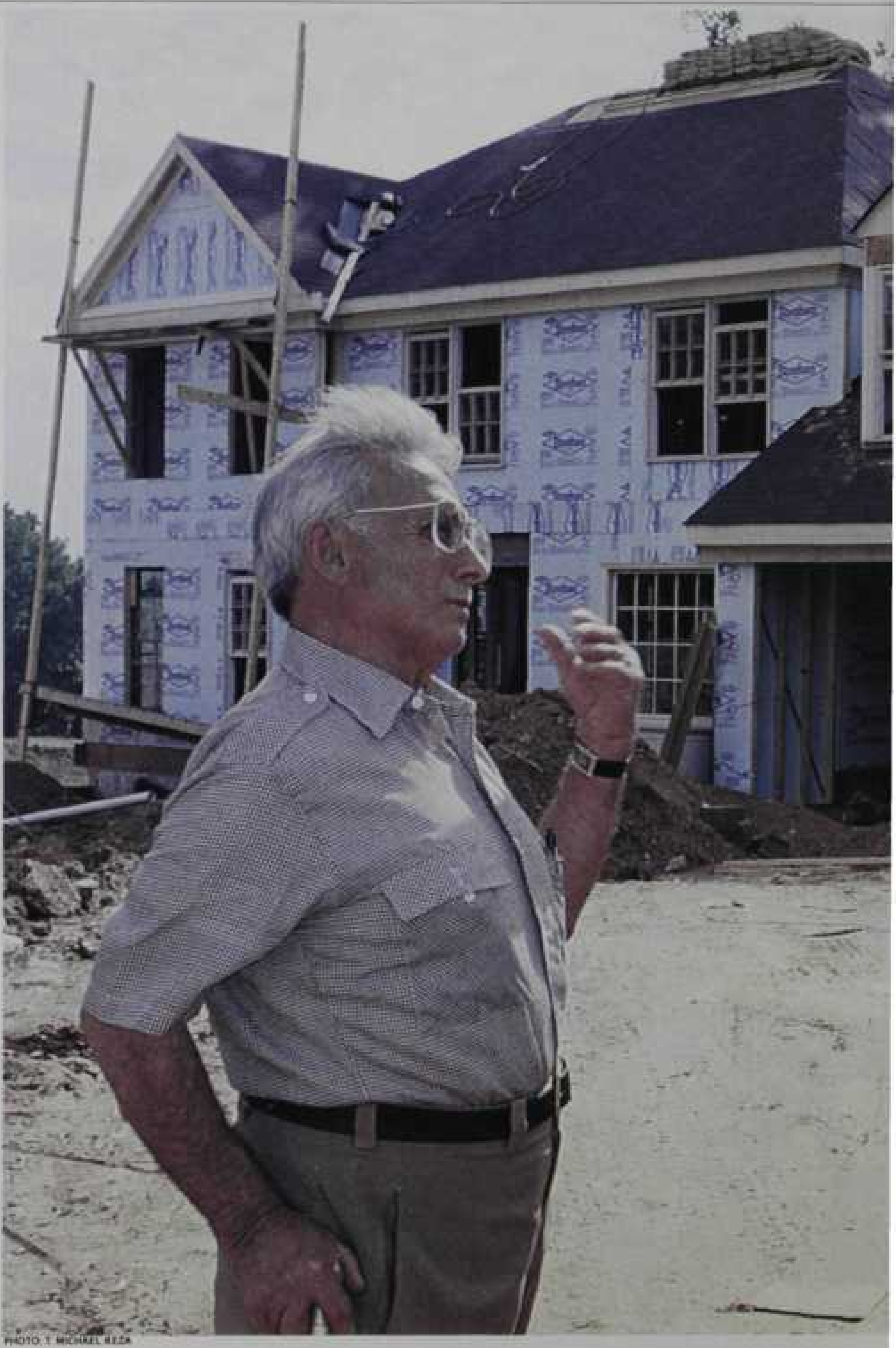

PHOTO: T. MICHAEL KEZA

You still have time to review your company's tax situation for this year and take steps to make sure you don't pay Uncle Sam more than necessary. Here are tax-saving strategies that experts recommend as the best for small firms.

properly planned tax strategies. As a result, substantial numbers of them pay too much in federal taxes.

While tax planning is a year-round process, the end of the year is a logical time to pause and review the past year's experiences to determine what changes are advisable. By reviewing their tax situation before the year is over, small-business owners might be able to plan strategies that will reduce the current year's tax liability as well as help in the new year.

"So many small-business people fail to do year-end planning," says Thomas P. Brock, president of the Boulder, Colo., accounting firm of Brock, Buchholz & Stow. "They often wait until after the year is over, and then it's too late to take advantage of some of the techniques that could have saved them money."

Unfortunately, tax planning, never a simple exercise, keeps getting more complicated. The Tax Reform Act of 1986 includes provisions that have been phased in since its enactment, so its full impact has become apparent only relatively recently. Brock says that all who are "connected with small business, the owners as well as the CPAs who work with them, are having a terrible time keeping up with the tax code. Once small-business people adopt a plan, Congress comes in and changes the rules."

The sheer size of the 1986 law underscores the complexity. It consists of more than 2,000 pages, and the regulations necessary to implement it make up an additional 7,600 pages. After several years of making significant tax-law overhauls, the nation's lawmakers are considering additional changes that once again will have an impact for better or worse on many business people.

Further complicating the tax picture

Tax planning *produced big savings for masonry-firm owners Antonio and Maria Alho, shown at a job site with accountant Sidney J. Burns.*

COVER STORY

PHOTO: ©CHARLES TASNADI—AP/WIDE WORLD INC.

Tax filing *should be simpler, said Reps. J.J. Pickle, D-Texas, and Richard Schulze, R-Pa., at a hearing where 392 IRS forms were displayed.*

for small companies is the extent to which tax reform requires businesses to shift their approach to tax planning. While the 1986 law lowered tax rates, it also eliminated several deductions and preferences. As a result, says William E. King, senior tax manager for Price Waterhouse in Bethesda, Md., "A number of income-deferral and expense-acceleration techniques that once were used by smaller firms are no longer available."

Small-business people should also be aware that tax planning has become more defensive, says Brock. "Tax accountants are busy making sure their clients are not getting snagged by the many traps in the current system. The number of pitfalls is staggering." Examples of such pitfalls, Brock says, are the expanded alternative minimum tax (AMT) and the rules that limit the deduction of passive losses and interest expense.

Even though the task is difficult, the tax experts say that business owners are well advised to stay as informed as possible on existing tax provisions and legislative proposals. By acquiring a working knowledge of the tax code, the experts say, small-business owners are better able to work more effectively with their tax advisers.

David L. McDuffie, chairman of Tempaco Inc., an employee-owned wholesaling operation in Orlando, Fla., says he spends at least 20 percent of his time away from his job trying to understand tax matters, including legislative proposals. "A business owner can't always rely on his accountant to alert him to all the tax nuances that affect a small company," he says.

Although the rules have changed and the techniques that worked well before 1986 do not always work now, various year-end tax-saving opportunities are still available to small-business owners.

"It is simply a matter of understanding them and reformulating your planning," says Mary Smalligan, national director of taxation of closely held companies for the accounting firm of Deloitte, Haskins & Sells in San Francisco.

Lawrence Angen, tax partner in the Beverly Hills, Calif., office of the accounting firm of BDO Seidman, says, "There are a number of legitimate tax-planning maneuvers available that can produce some rather meaningful benefits and help reduce a small-business owner's tax liability."

Which strategies are the most advantageous for small-business owners? Accountants who specialize in small-business tax matters say the following are some of the best planning techniques for small-business people to consider:

Investigate the benefits of an S corporation. Sam Starr, a tax partner with the national tax office of Coopers & Lybrand in Washington, D.C., says that under the Tax Reform Act of 1986, there are compelling reasons for eligible small-business owners to consider organizing their firms as S corporations (named after the section of the tax code that authorizes it).

A business can be organized as a sole proprietorship, a partnership, a corporation, or an S corporation. According to the Internal Revenue Service, about 69 percent of the nation's businesses are proprietorships, corporations make up 21 percent, and partnerships account for 10 percent.

An S corporation enjoys some of the advantages of an incorporated business, such as limited liability, but at the same time it is not subject to the double taxation of dividends, which is a major complaint of regular corporations and their shareholders. Double taxation occurs when a corporation pays income

taxes on its earnings, which are again taxed as income to shareholders when distributed as dividends. If earnings are reinvested in the company, shareholders pay personal income tax on the additional value in the business when it is sold.

With an S corporation, earnings are not taxed at the corporate level. Instead, as noted above, income passes to shareholders in proportion to their ownership of the firm, and it is taxed at personal-income rates. Because the top individual tax rate is less than the top corporate tax rate, the amount of federal tax paid on the earnings of an S corporation will often be less than the tax paid by a regular corporation.

The top regular corporate tax rate is 34 percent. The top individual rate is 33 percent, which applies, for example, to taxable income of $71,900 to $192,930 on a joint return filed by a couple with two dependents. The marginal tax rate is 28 percent in brackets below and above that category, and it is 15 percent in the lowest brackets.

In addition, S corporations are not subject to the new corporate alternative minimum tax, with its burdensome provisions that tax 50 percent of the excess of financially reported income over tax-return income. The AMT requires companies that report higher earnings on their financial statements than on their tax returns to include one-half the difference in AMT income. Companies pay the higher of the AMT or the regular tax. For example, if the corporate financial statement shows book earnings of $200,000, and if the tax return shows profits of only $100,000, the company must include $50,000 in its AMT taxable income.

The S corporation form is especially appropriate for new businesses that may lose money for the first year or two, Starr says. "In this situation, the business is a tax shelter for the owners who materially participate in management, since it provides them with losses that can be used on their tax returns to offset income from other sources."

The S corporation does have some restrictions. For example, ownership of an S corporation is limited to 35 shareholders, the corporation cannot own 80 percent or more of any subsidiary, and it can have only one class of stock.

Select the proper accounting method. Accounting methods also offer small-business owners tax-saving opportunities. Under tax reform, the cash method of accounting can be used by small businesses with average annual receipts of $5 million or less, S corporations, sole proprietorships, and most partnerships that do not offer products for sale. Personal-service corporations, such as those formed by architects, accountants, and lawyers, also can elect this method. Regular corporations with annual receipts in excess of $5 million generally must use the accrual method.

PHOTO: © SAL DIMARCO—BLACK STAR

Small-business owners *too often fail to investigate the tax benefits of establishing a retirement plan, says Ernst & Young tax accountant Jack N. Brown.*

Under the cash method, taxes are due only on income that has been received, and expenses are deducted when actually paid. The accrual method taxes income when services are rendered, even though the income may not have been collected. Expenses generally are deductible when liabilities become fixed, even if the expenses have not yet been paid.

For many small firms, the cash method offers more flexibility. Says Angen of BDO Seidman: "One of the big advantages is the fact that a small-business owner can better time the recognition of income and expenses with the cash method than with the accrual method, and thus defer taxes."

Tax advisers caution, however, that it may not be easy for a business to change its established accounting method; consent of the IRS is usually required.

Explore ways to shift income and deductions from year to year. For small-business owners who use the cash method of accounting, there are several tax-saving ways to help move income and expenses from one year to the next, says tax accountant Brock. The aim of such a strategy is to pay the IRS no sooner than required. To accomplish this goal, he says, try to defer income and accelerate deductions.

The prospect of higher federal rates, however, complicates the planning picture, he says. "If you believe tax rates are going to increase in 1990, then you will want to move more income into 1989 and take advantage of this year's lower rates," Brock says. "To do this, accelerate collections of receivables, perform more services, and do more billing."

Conversely, expense payments can be deferred to the following year when the potentially higher rates will make deductions more valuable. Employee bonuses could be put over into the higher-tax year, for example. Purchases of supplies, equipment repairs, and other activities that can be delayed will also increase deductions against the higher tax rates.

But deferring deductions does not always work. Lorrie Fry, a tax manager with the accounting firm of Coopers & Lybrand, says small-business owners should take a close look at their receivables, determine which ones are uncollectible, and take the bad-debt deduction in the year the determination was made.

Before tax reform, it was possible to set aside a reserve for bad debts based on past collection history, then deduct a yearly addition to this reserve. A bad debt can be written off now only when it becomes partially or totally worthless.

Under the law, delaying a bad-debt determination may cause problems with the IRS. "If you actually had bad debts on your books last year but overlooked them and deducted them this year, the Service might disallow the deduction," says Fry.

Consider the simplified LIFO method as a way to defer taxes. Under the last-in, first-out (LIFO) method of ac-

counting, small-business owners can match the current costs of acquiring inventory with current sales. This method is especially beneficial during inflationary periods.

"If a company's inventory costs are rising, LIFO allows the business owner to reduce the amount of income that is reported as taxable income in any one year," says Jim Stephenson, a partner in the Northbrook, Ill., accounting firm of Miller, Cooper & Co. He notes that there are simplified LIFO procedures available to small firms, enabling them to avoid some of the paperwork requirements involved in electing LIFO.

Under a LIFO procedure, for example, a company with inventory worth $100,000 at the beginning of the year and $110,000 at the year's end could deduct the $10,000 difference instead of carrying it on the balance sheet as inventory cost. The $10,000 becomes part of the cost of goods sold and helps reduce income for the year when the cost is subtracted from the sale price. The simplified method allows a small employer to use government-published statistics to calculate the pricing of the inventory. Deloitte's Smalligan cautions, however, that if a small firm's inventory costs are dropping, LIFO may not be the best choice because it

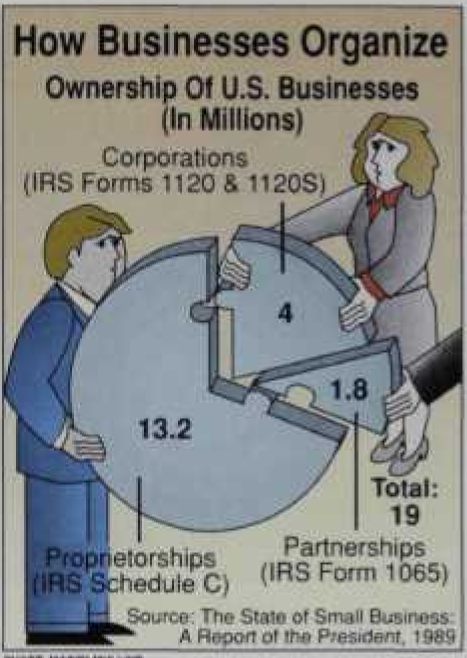

CHART: MARCY MULLINS

may actually increase taxable income.

Exporters should investigate the tax benefits of FSC and DISC. Uncle Sam provides tax incentives to companies that export goods and services, notes Jodi Gimbel, tax manager with the firm of Miller, Cooper & Co. One such incentive is the tax-favored foreign-sales corporation (FSC). It is typically a U.S. company's foreign subsidiary that earns a fee—which is deductible by the U.S. parent—for selling exported products.

The income earned by the FSC is partially exempt from tax. Companies with $5 million or less in export sales can establish a small FSC, which does not have to meet the more costly and complex requirements that a larger firm must meet, says Smalligan.

An alternative to the FSC is an interest-charge DISC (domestic international sales corporation) for up to $10 million in export sales. Unlike an FSC, none of a DISC's income is exempt from taxes, but it does enable an exporter to defer some federal tax.

Use the estimated-tax rules to your advantage. A company can make its annual estimated tax payments to the IRS according to either of two formulas: Pay 90 percent of the taxes owed for the current year, or pay 100 percent of the previous year's tax liability.

Accountant Angen says that by paying this year's tax based on the amount you paid last year, you can take advantage of a unique planning opportunity. "For example, if your company will experience a small loss this year, but next year profits will be especially good, consider creating a minor tax liability of $200 or so for this year," he says. "By doing this, you can base your estimated tax payments in 1990 on the $200 tax liability you incurred in 1989. You will not have to pay the remaining tax liability for 1990 until the tax-filing deadline in 1991. This maneuver enables you to keep the tax money you owe in 1990 for a whole year and have it earn money in your business."

Estimated-tax rules cannot be used by large companies that have over $1 million in tax income for any of the three prior years.

Determine if your firm qualifies for a tax credit for research costs. Accountant King says that if your firm is starting to develop a new product, be sure to determine what types of expenditures qualify for the research credit. "If a small-business owner wants to make a significant investment in a new product, the cost of that investment could be reduced if the expense qualifies for a research credit," he says.

Accountant Smalligan explains how the credit works: "The credit is equal to 20 percent of the increase in qualified research expense over the average amount incurred during a three-year base period or, if less, 20 percent of half of the current year's expenditures. Your deduction for research expenses must be reduced by one-half of the credit for 1989."

Consider placing real estate in your

Your Rights As A Taxpayer

Both individual and business taxpayers gained some important new safeguards with the enactment of the Taxpayers' Bill of Rights late last year. The law establishes ground rules for your dealings with the Internal Revenue Service in an audit of your returns, in your response to claims of delinquent-tax liability, and other matters.

Here are key provisions:

- The IRS must give you a simple, nontechnical statement that describes the audit process and lists your rights and the obligations of the IRS in this audit.
- You have the right to have a representative present at an IRS interview. If your representative attends, you are not required to be present unless the IRS has obtained an administrative summons.
- As long as you notify the Internal Revenue Service in advance, you can make an audio recording of your interview with an IRS officer. The IRS also has the same right, but only if you are notified in advance.
- The IRS generally must give you 30 days' notice before it seizes property to collect unpaid taxes. A notice of the IRS's intention to seize your property may be delivered to you in person, mailed to you, or left at your home or workplace.
- You may sue or recover costs from the IRS in certain circumstances involving the collection of tax. For example, you may sue in cases in which the IRS intentionally or negligently failed to release a lien or in which an IRS officer or employee recklessly or intentionally disregarded the laws relating to tax collection.
- If your property is subject to a federal tax lien, you have the right to appeal to the IRS district director for a release of the lien if you believe it was filed in error. If the IRS agrees, it will issue a certificate of release, generally within 14 days of the determination.
- Banks must place a 21-day hold on accounts attached by the IRS after receiving the official notice of levy. The freeze is designed to allow you time to resolve the problem with the IRS before the bank surrenders the account.

COVER STORY

own name. Many business owners may still be able to save thousands of dollars on corporate taxes if they personally purchase and place their firm's real-estate assets in their own name, says Jacob R. Brandzel, national tax partner with the accounting firm of Laventhol and Horwath.

Brandzel says that putting a firm's stores, warehouses, land, or office buildings in the name of the business owner is an excellent way to extract income from the business without paying corporate taxes on it.

This strategy can help reduce the amount of accumulated income and the tax penalties that may be levied on it. Once a corporation's liquid assets exceed the business's reasonable needs, the IRS may try to assess an accumulated-earnings penalty, says Brandzel. But extracting corporate income as rental payments to the owner can effectively distribute earnings, thus avoiding the penalty.

Another benefit of this strategy, Brandzel says, is that it helps avoid the risk of "unreasonable compensation." This is an issue that arises when the IRS claims an owner's salary exceeds his or her value to the business. For example, an owner may draw a salary of $200,000 but the government can

Many business owners may still be able to save thousands of dollars on corporate taxes. Putting the firm's stores, warehouses, land, or office buildings in the name of the business owner is an excellent way to extract income from the business without paying corporate taxes on it.

claim the owner's services are worth only $100,000. Unless the owner has a valid defense, corporate taxes will be due on the difference. Brandzel says that an owner can sidestep the limits on earnings by drawing the IRS-accepted $100,000 salary and a reasonable amount of rental income.

Look into the benefits of establishing a retirement plan. A number of small-business owners fail to explore the tax benefits of establishing a retirement plan, says Jack N. Brown, tax director for Ernst & Young's Entrepreneurial Services Group in Berwyn, Pa.

"This is one area where a small-business owner can make some hay with a relatively simple transaction. But 9 times out of 10 the business owner has failed to explore this particular option to the fullest," he says.

The reason for this, says Brown, is that smaller companies often don't have a lot of funds to invest in retirement plans. But the tax benefits of such planning should not be overlooked, he says.

As the Alhos discovered, one of the biggest advantages of establishing a retirement plan is the tax deductibility of contributions to the plan. Says Smalligan: "The type of plan a company selects will depend on a number of factors such as annual profits, the owner's age, the number and age of the firm's employees, their salaries, and the length of time employees generally stay with the company."

Self-employed individuals, salaried workers with sideline businesses, and full-time or part-time home-based business owners should consider establish-

Choosing Your Accountant

Adrienne Zoble, president of Adrienne Zoble Advertising, in Green Brook, N.J., says her first year in business was the last time she tried to do tax planning without help. She has had an accountant ever since.

"You need someone who understands the legislation and knows what it means to *you*," Zoble says. "There's no way I can add that kind of comprehension on top of what I need to know for my business."

For the benefit of other small-business people who reach the same conclusion, here are some qualities you should look for in selecting an accountant:

Small-Business Wisdom. Fit your accountant to the size of your firm. "An accountant who works in a large, corporate tax environment or in a large retail setting is not likely to help as much as one who specializes in small companies," says Dan R. Garner, the Dallas-based national director of entrepreneurial services at the accounting firm of Ernst & Young. Be sure that the accountant understands a company the size of yours.

Solid Foundation. Thomas P. Brock, of Brock, Buchholz & Stow, an accounting firm in Boulder, Colo., puts "depth of experience" before all else when judging a firm's competence. "The tax code is staggeringly complicated after more than 30 years of continuous complexities and change," Brock says, and thus the many-layered tax code presents problems that only the most astutely resourceful accountants can solve.

Garner says, "You can't expect one accountant to be all things to you." He suggests you hire a tax accountant who has colleagues who can be consulted.

Compatability. Begin your search by asking people in your industry for referrals. A certified public accountant won't catch the finer points of your rights as a taxpayer unless he or she knows your business or at least your industry.

Victor V. Coppola, national chairman of emerging-business services at the accounting firm of Coopers & Lybrand, stresses the importance of careful interviewing, as well as continued scrutiny once you hire someone. "They should be helping you learn your business. You should not be helping them," says Coppola.

Professional Standing. Edward A. Suarez, a Philadelphia-based national partner in marketing and business development with the accounting firm of Laventhol and Horwath, says an accountant's reputation in the financial community is crucial. If bankers believe what your accountant says about your company, you can benefit greatly, Suarez says.

Zoble says she consulted with two local chambers of commerce and her state association of women business owners about her accountant before hiring him.

Do a reference check with your banker, attorney, insurance broker, and your state or national trade association. Check your state's CPA society to make sure the accountant is in good standing and has undertaken continuing-education programs.

For a free copy of the American Institute of Certified Public Accountants' brochure *How to Choose and Use a CPA*, send a stamped (25 cents), self-addressed, business envelope to CPA Brochure, AICPA, Box 1033, New York, N.Y. 10108-1033.

—Bradford A. McKee

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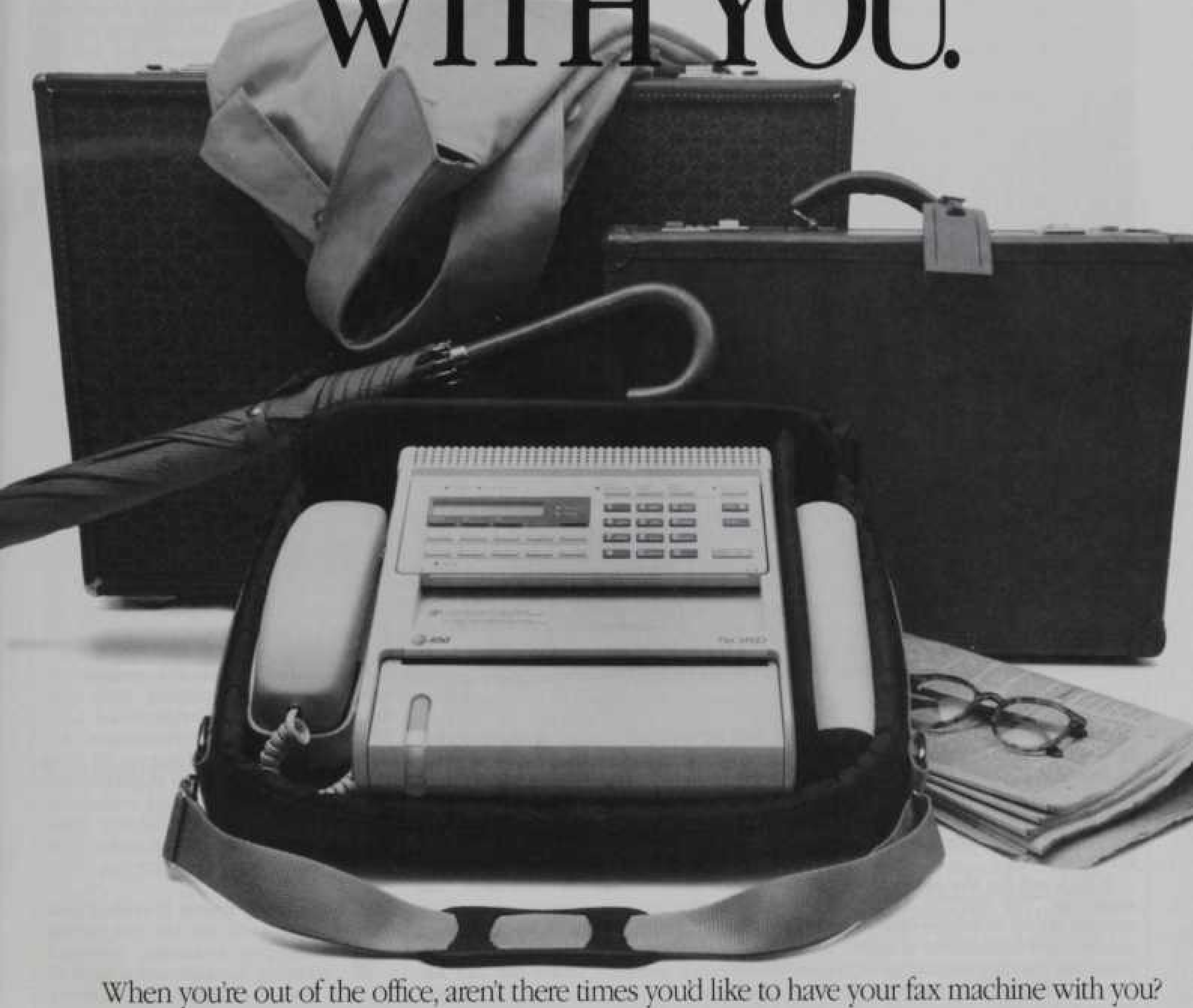

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ing a tax-free Keogh retirement plan. With a Keogh, it is possible to put aside tax-deductible annual contributions. As with other retirement programs, the earnings accumulate tax-free until they are withdrawn at retirement. The amount that can be contributed each year depends on the type of plan that is selected.

A Keogh must be established by Dec. 31 of the year for which it is claimed. But Keogh contributions can be made as late as the due date (including extensions) of the tax return. If the self-employed individual hires employees, they must be offered participation in the plan.

Watch out for the alternative minimum tax. The AMT is a parallel tax system set up to ensure that both individuals and businesses actually incur some tax liability each year. Corporations are required to figure their taxes using the regular system at a top rate of 34 percent, and again under the minimum tax method at a 20 percent rate. A firm pays the higher of the two figures.

AMT income is determined by adjusting taxable income for certain tax benefits, including accelerated depreciation, income-tax accounting methods such as long-term contract or installment sales, and net operating losses.

"Ultimately, you may be doing so well on reducing your regular tax bill that you throw yourself into AMT exposure," says accountant Starr. He notes that when the AMT is activated, your tax strategies may be just the opposite of what they would be under the regular system.

Place life insurance for buy-sell agreements or "key man" coverage outside the corporation. Partners in a closely held business often purchase insurance on each other so that they can use the proceeds of the policy to make up for losses incurred when one partner dies. In other cases, they establish buy-sell agreements funded with insurance to provide the company with cash to purchase stock from the deceased's heirs. In either plan, the insurance proceeds flow into the company.

Tax accountant Angen says now is a good time to review these arrangements to be sure the insurance that funds the buy-sell agreement or "key man" coverage is outside the company. "The imposition of the AMT on life-insurance proceeds under the Tax Reform Act of 1986 may require a restructuring of many of these arrangements," he says.

Angen notes that before tax reform, the receipts of the insurance proceeds were never subject to tax. They still are not subject to regular tax, but they are subject to the AMT. The effect could be to reduce the amount of the proceeds, thus leaving less cash for the intended purpose.

The accounting firm of Laventhol and Horwath provides the following example of how the AMT could affect these proceeds: Company ABC expects to report an equal amount of income on its books and its tax return in 1989. If one of the owners of the company dies during the year and the firm receives $250,000 in insurance proceeds on his life, this extra income will show up on the company's books. As a result, the firm is subject to the AMT on half the difference between book and tax earnings, or $125,000. Based on a 20-percent corporate tax rate, the company will be hit with an unexpected tax bill of $25,000.

PHOTO: © ROBERT HOLMGREN

Though some tax rules have changed, *certain year-end tax-saving strategies are still possible for owners of small firms. "It is simply a matter of understanding them and reformulating your planning," says Mary Smalligan, with the accounting firm of Deloitte, Haskins & Sells in San Francisco.*

To avoid this problem, the insurance for these arrangements should be purchased from the individual owner's personal funds and kept outside the corporation. In this way, insurance proceeds cannot be considered salary or dividends—both of which are taxable.

Review the benefits of offering employees a flexible spending account. These accounts allow employees to contribute pretax dollars through a salary-reduction program to fund expenses such as those related to child care or elder care. Employees' salaries are reduced by the amount of their contributions to the plan.

Flexible spending accounts cannot discriminate in favor of highly compensated employees. These plans offer substantial benefits to both the employer and the employee, say tax professionals. The employer saves Social Security tax and unemployment insurance on salary-reduction amounts elected by employees. The employees save on federal and in most cases state income taxes, as well as on Social Security tax.

Hire your children. Sole proprietors should consider employing their children under 18, says Christopher J. Lauzen, owner of a Comprehensive Accounting franchise in Geneva, Ill. This year a child can earn slightly over $3,000 tax-free, which helps reduce the sole proprietor's total tax liability. Also, the income paid to children under 18 is not subject to Social Security tax.

This listing makes it evident that in view of all the tax-saving strategies available, year-end planning has assumed a more vital role than ever before for business people.

Small-business owner McDuffie, in Orlando, says the significance of such planning for business people cannot be emphasized enough. "Taxes are nearly as much a part of my business as making payroll," McDuffie says.

Stephenson of Miller, Cooper & Co. offers this assessment on planning: "Without year-end planning, a small-business owner often forgoes forever the opportunity to save on taxes for the year." NB

To order reprints of this article, see Page 88.

FINANCE

How To Calculate Capital Needs

Puzzled about how much your firm should borrow? Try these guidelines to come up with a figure.

By Mark Stevens

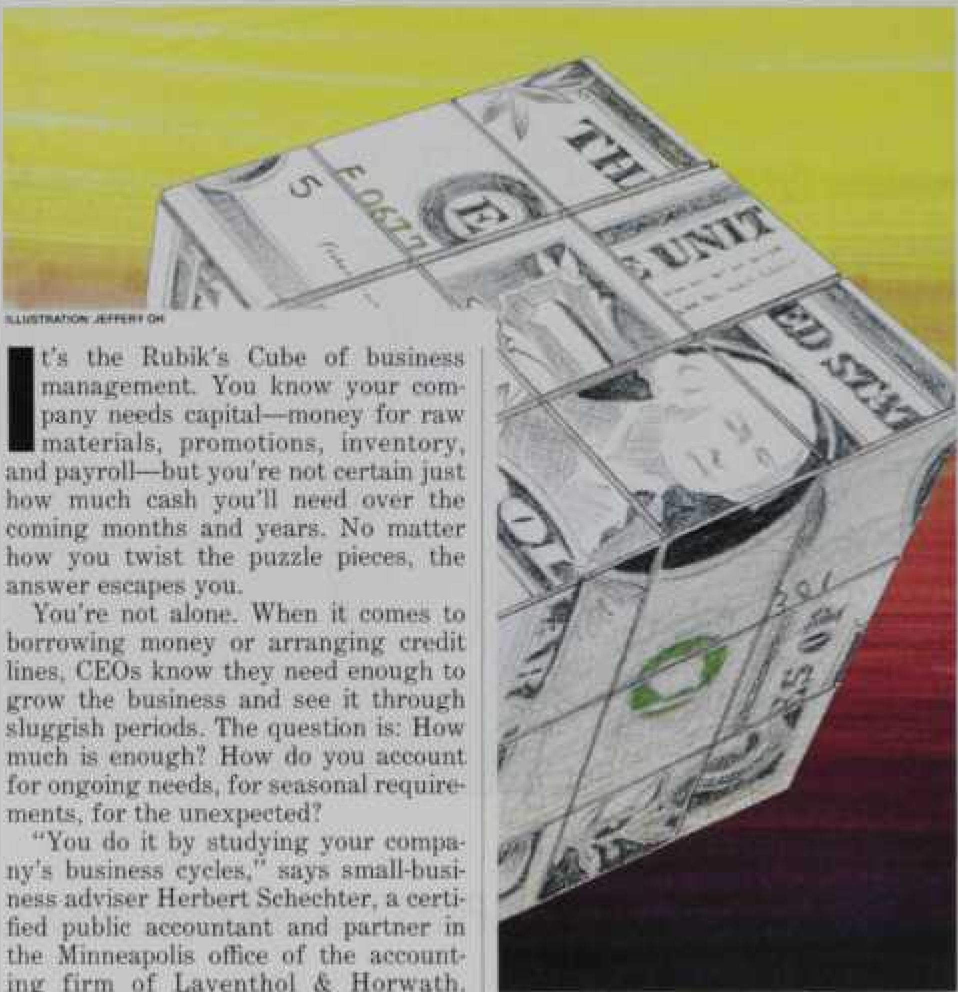


ILLUSTRATION: JEFFERY OH

It's the Rubik's Cube of business management. You know your company needs capital—money for raw materials, promotions, inventory, and payroll—but you're not certain just how much cash you'll need over the coming months and years. No matter how you twist the puzzle pieces, the answer escapes you.

You're not alone. When it comes to borrowing money or arranging credit lines, CEOs know they need enough to grow the business and see it through sluggish periods. The question is: How much is enough? How do you account for ongoing needs, for seasonal requirements, for the unexpected?

"You do it by studying your company's business cycles," says small-business adviser Herbert Schechter, a certified public accountant and partner in the Minneapolis office of the accounting firm of Laventhol & Horwath. "This reveals when and why you need cash, and that becomes the basis for your borrowing strategies. Most important, you calculate the flow of cash out of the business for inventory and the other costs, and then compare this to the time it takes to recover that money through the collection of receivables. What you're looking for is sufficient working capital to close the gap between disbursements and collections."

If you have traditionally based your cash projections on gut instinct and seat-of-the-pants estimates, chances are that you have come up short when your company could least afford it. To prevent this crisis-to-crisis method of financial management, Schechter says, try bringing some science to the critical task of projecting your company's capital requirements. The approach outlined here uses information from your company's financial statements:

- Determine your collection period. For simplicity's sake, assume that your annual sales are $365,000. Dividing this figure by the number of days in the year gives average daily sales of $1,000. If your accounts receivable balance is $60,000, you have a collection period of 60 days.
- Perform a similar calculation for inventory. Suppose your cost of goods sold is $220,000. Dividing this by 365 gives daily costs of about $600. If your inventory is $27,000, then you have 45 days of inventory on hand.
- Now proceed to accounts payable. Assume you have annual purchases of inventory and raw materials of $182,000 per year. Divide this by 365 days, and you have purchases of approximately $500 per day. If your accounts payable are $16,000, you have an accounts payable period ($16,000 divided by $500) of 32 days. This means it takes about a month to pay your bills.
- The next step is to take the total of accounts receivable and inventory days (in this case, 105 days) and subtract from this the accounts payable period (32 days), leaving a net of 73 days.

"With this process, you've calculated the company's trade cycle," Schechter says. "The purpose is to figure how much working capital the company requires, and that's what it does.

"Assume your annual cash needs (sales minus profits minus such noncash charges as depreciation) are $340,000 a year. Because the company's 73-day business cycle is about 20 percent of a year, you need about 20 percent of $340,000, or $68,000 in working capital credit. While this can be reduced by existing lines of credit or by profits plowed back into the business, it's a good estimate of the company's cash requirements."

This simplified calculation can be fine-tuned for your company by developing more detailed information on cash flow. This is usually done on a monthly basis, since most businesses collect from customers and pay suppliers monthly.

The cash-flow forecast should be comprehensive, and it should encompass cash sources and outlays, including revenues, proceeds from the sales of surplus fixed assets, disbursements for new equipment, income-tax payments, loan payments, dividends or withdrawals, and deposits on merchandise for future delivery.

Cash receipts and disbursements do not always balance out. Large cash inflows come shortly after customers are billed. Large cash payments must be made to build inventory, buy equipment, or pay taxes.

Capital-planning calculations, says accountant Schechter, "bring into sharper focus the company's cash needs, taking some of the guesswork out of the borrowing process. And they help convince bankers that you not only need loans but will be in position to repay them." NB

Business columnist Mark Stevens is the author of Sudden Death: The Rise and Fall of E.F. Hutton.

To order reprints of this article, see Page 88.

ECONOMIC DEVELOPMENT

Tailor-Made Work Forces

Customized training for individual companies is becoming a major incentive in more and more states' economic-development packages.

By Harry Bacas

The two questions most often asked by callers on the 800-number hot line in Maryland's economic-development department, Susan Sanabria says, are "How do I get my free money?" and "Where do I get my trained work force?"

Sanabria directs the Maryland Business Assistance Center, an early stop for companies planning to start up, expand, or move. What does the center have to offer in marketing Maryland as a good place to invest? "The primary tools we use are financing and customized industrial training," Sanabria says.

That up-front offer of customized training for a business prospect's work force is part of a growing movement, says the National Association of State Development Agencies (NASDA), based in Washington, D.C. More and more states are making such training an integral incentive in their economic-development packages.

"It is one thing to have good training programs, which most of the states have," says Miles Friedman, NASDA's executive director. "It is another to be aggressively integrating training into your business-recruitment and retention activities."

Because customized training is targeted to individual company needs, it can be quicker and more responsive than big social programs designed mainly to improve the lot of the disadvantaged and displaced.

States are offering training for both new and current employees. Many states help companies with recruiting and pre-employment screening. They subsidize costs of instructors, instruction materials, and sites. Some even promise: "No red tape!"

California's Employment Training Panel, for example, has dedicated $55 million of its unemployment-insurance funds to "help business equip itself with the skilled work force it needs to increase competitiveness and productivity." The panel reimburses training costs for companies that are starting up, expanding, retooling, or restructuring. It lets each company decide what jobs it wants to train for, and the company itself chooses the curriculum, the trainer, and the trainees.

The California panel will subsidize training for workers who have been laid off and for those who need retraining to avoid future layoff. The employer is reimbursed after the worker has been employed for 90 days in the job for which he or she was trained.

Similarly, Indiana has added a "Training for Profit" program to its basic industry retraining programs. The new program is limited to start-up or expanding companies. In addition to skills training tailored to a business's needs, the program will help a business recruit workers and will help it find additional training funds.

Kentucky, which like California is a pioneer in industry-specific training, calls its agency the Bluegrass State Skills Corp. Autonomous, with its own state funding, the agency has on its board the state superintendent of education, the head of the employment service, and the state secretary of economic development. The agency brokers a wide range of state resources "to develop skills-training packages for companies of all sizes."

NASDA's Friedman says more states are looking for ways to link training organizations and training programs to economic development. He points to ombudsmen in Nebraska and Kansas who work both for the development agency and the training agency and says: "These folks bring to the table for any given deal, whether it be an attraction deal or a retention-expansion effort, knowledge of all the different training resources that are available."

To compare the different ways state development agencies are using training, one can zigzag from Maryland to California to Indiana to Kentucky.

Pat's Inc., a 13-year-old aircraft-accessory company with plants in Columbia and Hagerstown, Md., designs and manufactures auxiliary power units and fuel systems for corporate jets and large commercial aircraft. It has 100 employees and is seeking to expand.

"We are in a constant state of training," says Larry Ohler, chief financial officer. "Even when we hire people with experience and two or four years of vocational education, we still need to upgrade their skills."

The company is expanding its Hagerstown plant, which is located beside an airfield. Workers can climb right into a customer's plane to do custom fitting, but finding enough skilled

PHOTO: T. MICHAEL KEZA

Aid from Maryland *helps Pat's Inc., an aircraft-systems maker, sponsor a metalworking course at a community college, says Larry Ohler, right, chief financial officer. He is shown with employees Devin Staples and Steve Jackson.*

workers has not been easy. "Hagerstown has a large labor pool," Ohler explains, "but most of the people only have production skills. We are not production-oriented. We don't build two of the same unit in a month. Our workers have to be able to take on new projects.

"In our machining and sheet-metal work, the precision is much greater than they teach in trade schools. So more experienced people have to work with the new ones for a year or more until their skills improve, and we continue to send employees to classes."

When he couldn't find the right classes, Ohler sought out other companies in the area that had similar precision requirements. The state is now helping them sponsor a special sheet-metal course at the local community college.

Jumping to a different industry, look next at a high-tech warehouse in Woodland, Calif., 30 miles from Sacramento.

PayLess Drug Stores Inc., headquartered in Wilsonville, Ore., recently built a state-of-the-art distribution center in Woodland to supply the company's 160 stores in central and southern California. All the training for 300 employees was done on-site. The training had to be given both to new hires and to current employees who had not worked in such a plant before.

PHOTO: © MARY ANN CARTER

At Edy's in Fort Wayne, *the state of Indiana helped train Korky Heinkel, Darrin Kelley, and other employees about all aspects of making and marketing ice cream.*

To qualify for state training aid, the company had to prepare dozens of job descriptions and estimate the training time required for each job. Training would start while the building was being constructed.

"The employment training panel people were very responsive," says A.J. Barinaga, assistant manager of the plant. "But they are picky about record keeping. They want you to clock every operation." Barinaga gave his eight departmental supervisors the task of writing the job descriptions.

"As it was," says Barinaga, "only a fraction of the people we have hired qualified for the training-panel funds because of their unemployment experience. And we have had a lot of turnover because of the very competitive job situation around here. But the hiring and training operation was extremely successful in getting us up and running."

Next skip back east to Fort Wayne, Ind., where Edy's Grand Ice Cream opened its plant in 1985.

Because the management team

brought in by the parent company was determined to use the team system throughout the plant, employees first would get "social training," to learn how to work together in teams. "This is an autonomous work force," says Ben Herbst, who joined Edy's as plant manager. "There are no—I mean zero—supervisors in this factory."

Edy's is owned by Dreyer's, a West Coast firm that supplies premium ice cream to 13 Western states. Edy's, its only plant east of the Rockies, was given a different name from the parent to avoid confusion with a similarly named East Coast firm—Breyer's.

A month before the plant opened, with 18 employees carefully picked from 600 applicants, a West Coast consulting firm came in to conduct the "social training." Then came technical training from equipment suppliers, safety training, product training, and sessions with marketing people from Dreyer's on how the ice cream should taste and how it should be sold. The state agency helped in all these efforts.

The original work force of 18 has grown to more than 100, and training has continued. But last year it underwent a major change. Herbst decided to take the responsibility away from management and give it to the employees. He explains: "Now we bring new people in at less than base rate, and we hand them a list of all the things they have to learn, the people they have to meet or follow around or spend time with. They see films on the company's heritage, go around with a person on the management team, learn quality, safety, customer service, sanitation. They are on their own. Until they complete the list, get each item checked off by somebody, they don't get raised to base rate.

"We use similar checklists when people need to learn new tasks. The word is, 'Learn more, earn more.' "

PHOTO: © BILL LUSTER

Available training *was a reason for locating Knaggen Inc. in Kentucky, say owners Kathryn Sexton and Tomas Johansson, shown here with employee Garry Caswell, right.*

Production at Edy's recently topped a million gallons a month, and the company is growing at a rate of 25 percent a year.

Continual training is the rule also at Clarion Manufacturing, in Walton, Ky. Clarion is the only U.S. assembly plant for a Japanese maker of car radio-cassette players. When Clarion started manufacturing in 1987, state agencies helped recruit workers, provided specialized

pre-employment training at two vocational schools, and sent two of the company's department heads to Clarion's main plant in Japan to study production and quality-control methods.

As Clarion's work force has expanded to 130, training has gone on as well. Nearby colleges conduct courses in component identification, electronic assembly, and soldering skills. The classes are designed to simulate working conditions at the plant. For example, the students stand during class, just as workers do at the plant, and they get the same 10-minute morning and afternoon breaks and half-hour for lunch.

"And nobody shoos them back to class," emphasizes Dick Searles, Clarion's vice president of operations. "It is the students' responsibility to be there on time. They are told that punctuality, integrity, attentiveness, and concentration can't be taught."

For the final assignment, each student assembles a radio, and it had better work. The quality of construction, along with interviews and classroom observations by Clarion supervisors, become part of the student's job application.

Another Kentucky company with overseas ties and a commitment to training is Knaggen Inc., a cabinet and furniture manufacturer and distributor in rural Sonora. The company is half-owned by the Swedish firm of Mobel-Knaggen. The other half is split between Tomas Johansson and Kathryn Sexton, the president and vice president. Johansson, who comes from Sweden, and Sexton, who grew up in Kentucky, are veterans of the kitchen-cabinet business, where they became acquainted. They joined forces last year to start Knaggen (and six months later sealed the deal by getting married).

The company supplies doors and other cabinetry, made to its specifications in Sweden, to U.S. kitchen-cabinet manufacturers and to big retailers such as Ikea. It also develops new designs and is taking over some of the manufacturing, including routing, painting, and other finishing, at its own plant.

The state sent one Knaggen employee to Sweden to learn the operations of automated paint machinery. He came back to train 25 others.

Training is continuous, says Sexton. "The high-tech machinery we use requires skills that just aren't known in a rural area like this. These people are full of desire and ability, but we need to teach them metric measurement, computer skills, team management, communications skills, how to answer the telephone. And they just eat it up with a spoon.

"Tennessee offered us more financially, but the training that was available in Kentucky was a major factor in our decision to locate here. We had a limited amount of money. We outlined our skills needs to the state employment agency. They helped us recruit, including some displaced and disadvantaged workers. The state people came to our office and listened, to learn our operations and what we needed. They provided all kinds of information on courses at vocational schools and community colleges. They were always available."

Steven L. Zimmer, executive director of Kentucky's Bluegrass agency, says: "As an independent corporation, we deal with the employment service, the department of education, and the adult vocational technical colleges. Part of our purpose is to develop relations between companies and those institutions." NB

Family Business

Deciding what's right and wrong, professionalizing your firm, and building channels of straight talk with employees.

FAIR PLAY

Fun And Games—And Ethics

By Sharon Nelton

The CEO examined the cards that were dealt to him and said, with obvious satisfaction, "Straight flush. How about that?"

But it wasn't a game of poker. Instead of a fistful of neatly numbered diamonds, his hand contained cards posing such dilemmas as:

- "An official of a large company demands a payment in return for giving you a lucrative contract. Do you pay?"
- "As a famous athlete, you are offered $100,000 to endorse a product you wouldn't use. Do you endorse it?"
- "Your teenage children ask if you ever smoked marijuana. You did. Do you admit it?"

PHOTO: TING CHAO

The CEO was one of a handful of family-business people who accepted a challenge from *Nation's Business* to play the Milton Bradley game "A Question of Scruples." There's a general belief that family-business people are more ethical than other business folks, and we hoped a few rounds of Scruples would give us a handle on the truth.

Scruples raises hundreds of ethical issues on which players must make "yes," "no," or "depends" decisions, and they also must convince one another of their sincerity. The fun lies not in who wins or loses but in the explosive discussions that the questions raise.

Our test group consisted of three married couples: two chief executives of family firms and their wives (one a physician, the other a business-savvy homemaker) plus another CEO's son and daughter-in-law, who both work in the business.

The physician didn't believe her husband when, in response to one question, he insisted that if he were a politician, he would vote against his conscience on abortion if it meant being re-elected.

One of the CEOs faced a question that offered him the opportunity to preview a competitor's product surreptitiously and secure a patent on it first. Would he do it? He weaseled out by answering, "depends."

The dilemma that most clearly divided the scrupulous from the unscrupulous—and the men from the women—went to one of the wives: "You're in an exclusive boutique. While trying on clothes in the dressing room, you get lipstick on a designer dress. Do you inform the salesperson?"

"Absolutely not," she said. All the women agreed, and the men disagreed. One husband was stupefied. He declared that if he did something similar—ripped a pair of pants, for example—he would own up to it.

Another husband speculated that the women didn't have much experience in handling big sums of money and feared having to pay for a costly dress they did not want. "The money is different for us than it is for you," he said, turning to one of the women. "You never made a $10,000 decision in your life!" To which she frostily replied that days earlier, she had signed a $135,000 check.

And so the evening went. Our game of Scruples didn't prove whether or not family-business people have an edge on ethics, but we all enjoyed the mix of hilarity and disbelief, charges and countercharges.

Here's one for you: "You own a restaurant. In the kitchen, you witness a cook drop a lamb chop on the floor, then wash, reheat, and replace it on the plate. Do you allow it to be served?"

Well, do you?

Sharon Nelton, Nation's Business *special correspondent, writes about family firms.*

PLANNING

Professionalizing: A Necessary Hurdle

By John L. Ward

Many family-business owners resist "professionalizing" their companies because it seems to demand so much of them.

The penalty for not doing so, however, can be severe: Opportunities are missed, and the fun of running the business fades away. Can this be happening to you?

A growing business will inevitably outrun your family's ability to manage it alone.

This usually happens when you reach 20 to 50 employees. And your company is sure to stagnate by the time the 100th worker is hired if you haven't taken steps to professionalize—to attract good nonfamily managers and embrace professional management systems.

New, skilled managers can bring invaluable benefits to your business. These include renewed growth, a more effective management team, fresh ideas and insights, and rejuvenated employee commitment to your company's goals.

Eventually, professionalization will ease your managerial responsibilities. It also offers you relief from heavy frustration and feelings of isolation. And it can give you greater freedom to concentrate on long-term goals and plans for the business and your family.

How do you know when you've reached that point when professionalizing is crucial? Here are some clues that can help you make that determination:

- Sales and market share stagnate, and you lose the sense that you are on top of changes in your industry. New competition surfaces from unforeseen sources—doing things you could do.
- New ideas seem to go nowhere, worsening the feeling of stagnation.
- One or two promising young employees leave for better opportunities. Yet there always seem to be reasons not to add new, young, ambitious replacements.
- You grow annoyed by subordinates' chronic failure to seek responsibility or take initiative. You say to your-

ILLUSTRATION: GREG FITZHUGH—EUCALYPTUS TREE STUDIO

self (and sometimes out loud): "The burden is all resting on me!"

• Personnel problems compound. You spend mounting hours in your office worrying about follow-through and lack of teamwork. You are sick of hearing reasons why things aren't better.

In short, where your business used to make you high, it now lays you low.

Professionalization can provide a strong shot of new energy, commitment, and freshness at this stage. So why the reluctance?

A common concern I've heard is that outside professionals will fill the management slots that the owner envisions for the next generation.

Or an owner may fear that outside talent will stir resentment among loyal, long-time employees, who may face changing roles and greater challenge.

But, in fact, professional management can so enrich a business that it spawns a wealth of unforeseen possibilities for children as well as nonfamily employees.

The vice president you hire today, for instance, could be heading up an entirely new West Coast sales region several years from now, far afield from the management path you have charted for your offspring.

Privately, many business owners doubt their own abilities to attract and manage professionals from outside the family. Others resist paying enough to recruit top people and then worry that they won't be able to retain them.

But good people are not an expense—they are the best investments you can make in your business. No growing company can employ too many good people.

And with careful planning, you can put in place a system of rewards that will sustain nonfamily managers' loyalty and contributions. While granting stock may not be desirable, other incentives such as bonuses, perks, management-development programs, and personal-growth opportunities can be very alluring.

Professionalizing also means installing sound management systems. Formal budgets are invaluable, not only to give your managers the information they need but also to offer them some latitude in managing their parts of the operation.

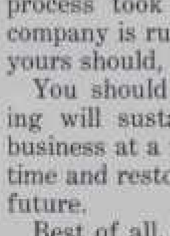
Performance reviews are critical to building a more effective management team.

Management meetings become more important for building teamwork and sharing helpful information. And employee-development programs form a first step toward growing your own managers from within.

Accomplishing all this will be emotionally and professionally demanding. "It was painful," says the owner of a Minnesota food-service concern that went through the process recently. A couple of his long-term employees left—one a surprisingly early retirement—because of competition from the new recruits. And the professionalizing process took several years. But his company is running smoothly now, and yours should, too.

You should find that professionalizing will sustain the growth of your business at a new level for a very long time and restore your confidence in the future.

Best of all, you'll also find that running your business is exciting again.



John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family businesses. Coauthor Laurel S. Sorenson has taken a leave from this column to work with Stew Leonard, a Norwalk, Conn., family-business owner, on his autobiography, set for publication by Alfred A. Knopf in 1990.

IN PRINT

Resources

An Inside Look At Two Families

You can learn what goes on inside two prominent family businesses from a publication offered by the Family Firm Institute (FFI). Members of the Rooney family, owners of professional football's Pittsburgh Steelers, and the Leonard family, owners of Stew Leonard's Dairy, a major dairy store in Norwalk, Conn., discussed succession planning and other aspects of their businesses at the 1988 FFI annual conference.

Their remarks are now available in the published conference proceedings, an 80-page document called *Managing Succession in Family Firms: A Multidisciplinary Perspective.*

The report also includes discussions on the role of nonfamily managers in the succession process, planning for continuity, and dealing with legal terminology.

The FFI proceedings are $35 ($25 for FFI members). Call or write the Family Firm Institute, Box 476, Johnstown, N.Y. 12095; (518) 762-3853.

From The Bookshelf

Two new books for family-business members are off the press:

Smart Growth: Critical Choices for Business Continuity and Prosperity, by Ernesto J. Poza (Jossey-Bass, $19.95). A Cleveland business consultant, Poza examines the warning signs of business decline, such as a slowdown in sales growth, overconfident management, and rigid bureaucracy, and he suggests four alternatives: selling the business, going public, adopting a "maintenance" mode, or—his favored choice—deciding to grow. He offers guidance for managing growth, including how to mesh company growth with family goals.

Corporate Bloodlines: The Future of the Family Firm, by Barbara B. Bucholz and Margaret Crane (Lyle Stuart, $20). The authors profile the histories of 14 family businesses, including the Glen Ellen Winery in Glen Ellen, Calif.; the 7 Santini Brothers moving company in Bronx, N.Y.; and Bixler's, an eight-generation jewelry chain based in Easton, Pa.

Mark Your Calendar

Nov. 4, Wellesley, Mass.

"Passing the Torch: Succession in the Family Business," a one-day conference for business owners and their families. Topics include choosing a leader from among your children, estate planning, and ensuring financial security in retirement. Write or call the Office of Alumni Relations, Babson College, Wellesley, Mass. 02157; (617) 239-4562.

Nov. 15-17, Cleveland

"Managing Succession Without Conflict in the Family-Owned Business," a seminar on management transition presented by family-business consultant Léon A. Danco. Contact the Center for Family Business, 5862 Mayfield Road, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

Nov. 17, Waco, Texas

"Succession Planning: Preserving Wealth in the Family Business," a one-day workshop covering such issues as minimizing estate taxes and how families and businesses can survive succession. Write or call the Center for Entrepreneurship, Baylor University, Waco, Texas 76798-8011; (817) 755-2265.

Jan. 18-20, Tucson

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a seminar sponsored by *Nation's Business*, Laventhol & Horwath, and Shearson Lehman Hutton. For information, call Mary L. Howard at 1-800-521-1818.

Jan. 25-27, Park City, Utah

"Assessing, Understanding and Developing Your Family-Owned Business," a workshop that is aimed at helping decision makers create action plans for continued family and business success. For additional information, write or call Dyer, Peay & Associates, 2696 North University Ave., Suite 290, Provo, Utah 84604; (801) 375-0751.

COMMUNICATION

Straight Talk From Key Employees

By Rita S. Rapoza and Lynne C. Lancaster

When Terrance (Terry) M. Rockstad recognized the need to develop nonfamily leaders in his family-owned business, he knew he had to encourage people to be straightforward with him. Rockstad, president and CEO of Dan's Super Market Inc., a Bismarck, N.D., grocery chain, recalls conversations three years ago with William F. Zerr, then supervisor of produce and general merchandise. "As Bill and I started to have some serious, heart-to-heart discussions, I tried my best to let him know how much I appreciated his opinions, even about my own family," Rockstad says.

That encouragement paid off. Zerr is now director of operations, and he says, "I have come to trust that Terry and I can honestly discuss the performance of any person in this organization, whether they are family or nonfamily members."

Such openness is unusual in a family firm. Emotions run high when a nonfamily manager must let the boss know his son has a drug problem that affects the business, or when a chief financial officer has to tell the president about her brother's loose accounting procedures.

Typical are the comments of a vice president of operations, who said: "It's not easy having the boss's brother report to me. The boss thinks it's something personal between me and his brother, but this company just can't survive with a vice president of sales who doesn't know his own products!"

The risks of straight talk are high on both sides. Nonfamily employees fear losing their jobs or getting stalled in their careers. Business owners dread learning bad news about family employees. It's not just embarrassing; it also means they may have to take action that can disrupt the family.

But they recognize that their success depends on their ability to obtain reliable information. They also understand the financial and emotional costs to the company when open communication doesn't exist and a talented nonfamily employee quits out of frustration.

Nonfamily employees need reassurance that they won't be punished when they risk being frank about sensitive issues. And smart chief executives know they'll never hear the bad news if they stifle straight talk by silencing criticism about a family member or ignoring promises to correct problems.

Gene Snyder, president of Snyder Bros., a Minneapolis-based drugstore chain, says: "It's hard for senior managers who aren't part of the family to tell me something they know I won't like. I really try to be sensitive to those tough messages."

Here are some ways to prompt straight talk:

Recognize early attempts. Nonfamily employees need immediate encouragement when they bring up touchy subjects. This includes verbal invitations like "Tell me about it" or "I'm interested in what you have to say," as well as nonverbal cues, like closing the door when the employee is in your office.

Protect the employee. Your nonfamily employees need to know what you will do with the information they give you. They want to know that you respect their honesty and that, if necessary, you will protect them from reprisals by family members.

PHOTO: ©LONNIE BERTSCH

Good communication *with nonfamily employees such as Bill Zerr, left, is essential, says Terry Rockstad.*

Keep in touch. Nonfamily employees commonly complain that even when they do muster the courage to deliver an upsetting message, they seldom see the results. This is especially true if the message is embarrassing to the family. Gene Snyder says, "I like to check back with employees within a day or two to let them know what's going on, even if we're still working on the problem."

Talking straight to the boss requires courage and confidence, but as Bill Zerr firmly believes, "It's the only way the right person can get the right message to fix the right problem."

Rita S. Rapoza is president of Rita Rapoza & Associates Inc., a consulting and training firm specializing in privately owned businesses. Lynne C. Lancaster is president of the Lancaster Group Inc., a management communication consulting firm. Both are based in Minneapolis.

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TECHNOLOGY

The Rainbow Maker

Determined to turn golden oldies into gold, entrepreneur George Jensen colorizes black-and-white movies.

By Charles A. Jaffe

George Jensen Jr. was looking for a business to get into in late 1985. His idea arrived in the form of Santa Claus dressed in a tired-looking, off-red suit. Jensen, now 40, describes how his vision of a business came to him during the premiere of the colorized version of the 1947 movie classic "Miracle on 34th Street."

"The color wasn't great," he recalls, "but I thought, 'Boy, improve the color, and you have the makings of a whole new industry.' When I found out that this was the highest-rated show ever in syndication, I knew colorization could be an incredible market and that I wanted in on it."

Like the Santa character in the movie, Jensen had to work to make people believe in him. The fledgling colorization industry, a business devoted to making color versions of black-and-white movies and television shows, was already active. Three colorization firms were established and competing, while hundreds of actors, directors, and other members of the Hollywood film industry were vociferously opposing the entire process as a destruction of art.

But Jensen was determined to start a colorization company. He persuaded 260 friends and acquaintances to invest, altogether, $3 million in his company, and with $20,000 of his own and the knowledge gained during his previous careers as a stockbroker and an independent television producer, he started American Film Technologies Inc. in the Philadelphia suburb of Wayne, Pa.

Jensen set out to develop a colorization technology that would result in better color tones and coverage than his competitors were producing. Under the technique then in use, color overlays were applied to the original black-and-white film.

Dissatisfied with his two attempts to improve on that method, Jensen sought help from an expert in color imaging, a process using computers to color brain scans and other medical pictures. He asked for a critique of his color-overlay effort from Barry Sandrew, a Harvard Medical School neuroscientist and a leading color-imaging researcher. "He called it crude, but he thought we had great potential," Jensen says. "So I offered him 50 percent more than he was earning at Harvard—win, lose, or draw, guaranteed for two years—to be a director."

Charles A. Jaffe is business editor of The Morning Call, *in Allentown, Pa.*

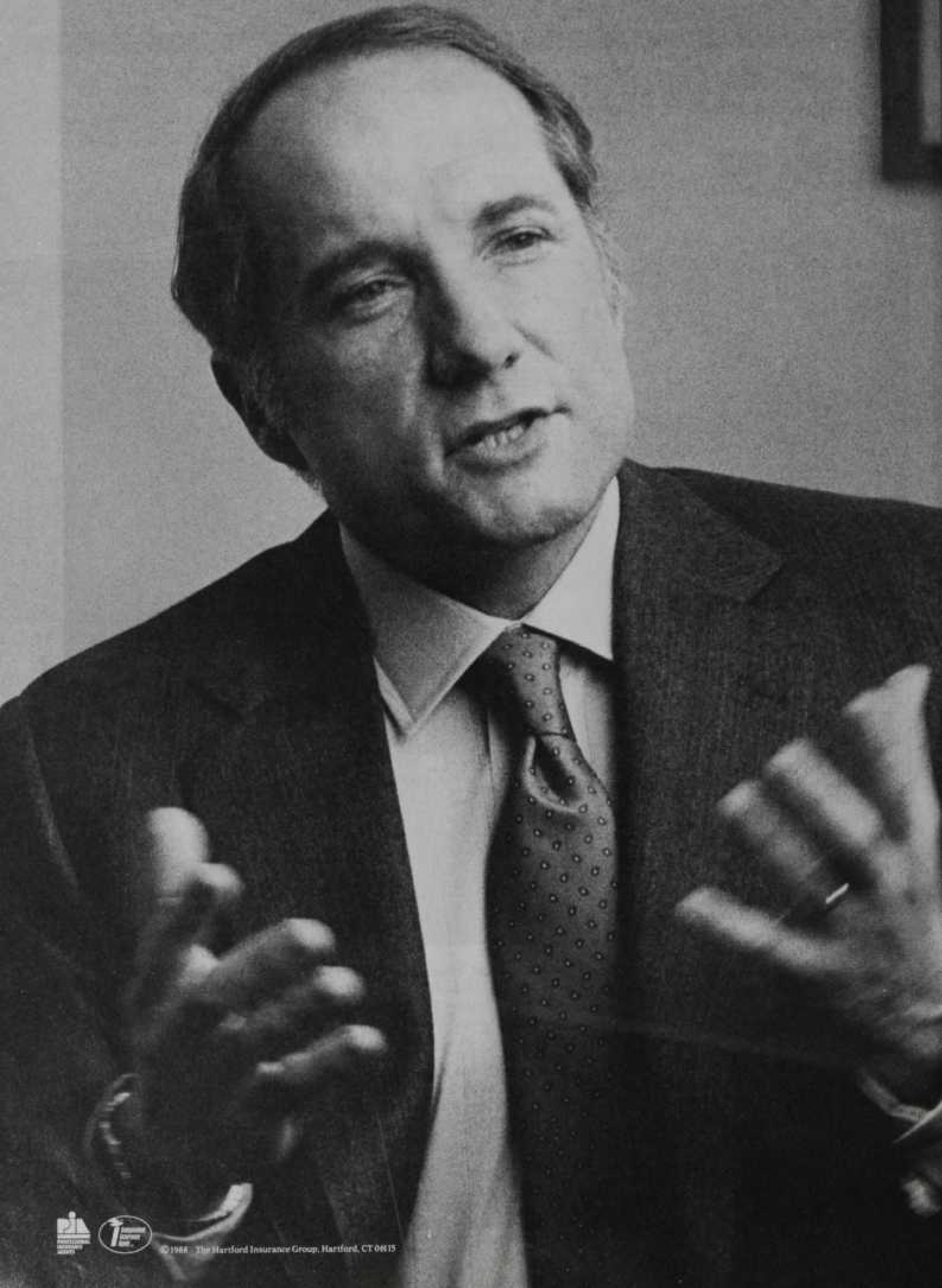
PHOTO: © TURNER ENTERTAINMENT

PHOTO: © ROCKY THIES

Miracle on 34th Street, *shown above, inspired George Jensen to start a film-colorizing firm. Below, color-imaging expert Barry Sandrew, American Film Technologies' executive vice president, and Jensen, chairman, are shown in the firm's San Diego production facility.*

Sandrew developed the company's proprietary process, which replaces black and white with color, rather than covering over the black and white. A videotape reproduction, made from the original black-and-white film, is transferred to a laser disc at a computer workstation. The computer operator then replaces the blacks and whites—and all the shades between—with up to 17 million shades of color. The disc reproduction is then transferred back to tape for the customer.

In March 1987, before approaching the movie studios, American Film showed a demonstration tape of four colorized film clips to the news media—



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selections from "The Day The Earth Stood Still," "Little Rascals," a Frank Sinatra and Judy Garland performance, and an animation classic. "If the critics hated it," Jensen says, "we could have been in big trouble."

While some film stars, directors, and critics still call colorization by any means a sacrilege, various industry experts have noted that Jensen's process does not deface old films' negatives because the colorizing is done on computer copies, not the originals.

The studios quickly came calling. American Film agreed to colorize "Bells of St. Mary's" and "Sands of Iwo Jima" for Republic Films. Television impresario Ted Turner, owner of the MGM library of roughly 2,500 films, came through with a contract for American Film to colorize three films, with an option for nine more.

But while American Film was starting to look like a five-star hit, it was struggling with a balance sheet unmistakably colored blood red. The company lost \$3.4 million on revenues of just \$76,500 during 1986 and 1987.

Jensen took the company public in late 1987, but American Film's problems were not over. Color Systems Technology Inc., the industry's leading company at the time, sued American Film, alleging patent infringement. The suit made investors wary of putting money in Jensen's company, which kept the price down "and created a big cloud over us," Jensen says.

Nonetheless, Republic asked American to colorize more films, and 20th Century-Fox signed American, asking it to make a new colorized version of "Miracle on 34th Street." And in the largest contract in the colorization industry, American extended its deal with Turner to five years and up to 180 films at \$300,000 per movie. American Film will gross about \$55 million if all options are exercised.

In addition, the nation's copyright law affecting colorization was an obvious boon to business. Under the law, a studio that colorizes a film receives a copyright on the movie as a "derivative work" for up to 75 years. And for the cost of colorization, Jensen can copyright and distribute pictures in the public domain, creating his own film library and boosting revenues. Among the films already under a new copyright to American Film are four Sherlock Holmes features starring Basil Rathbone and the 1946 classic "It's a Wonderful Life."

Jensen expects the revenues on the films to skyrocket because of the television market for colorized films. "Miracle on 34th Street" earned 20th Century-Fox an average of \$50,000 per year for 20 years on the original film, which was shown in theaters and on television. The color version, which appeared only on television, generated \$2.6 million in revenues in just three years.

Colorization of film classics remains controversial among some industry experts and a number of filmgoers, and it was an underlying reason for the recent decision by the National Film Preservation Board to name 25 films to the National Film Registry as "culturally, historically, or esthetically significant." The board will soon require that any of these films—and the 50 more to be named over the next two years—that are changed from the original, by editing, colorization, or other means, without the film makers' permission, will have to carry a notice to that effect. The procedures have not yet been announced, but American Film has been carrying its own notices on its films since last year.

In September 1988, the company's accounting firm said American Film—which now employs about 400 people, eight in Wayne and the rest in San Diego—needed to generate more working capital in order to survive. The company had lost an additional \$4.3 million during the year ended June 30, 1988.

PHOTOS: © ROCKY THIES

Color discrepancies *are eliminated by masking, at left, and colors are chosen and finalized in the preproduction room, above.*

Jensen raised \$3.4 million with a second stock offering in December, and the company posted a \$218,000 profit on \$2.9 million in revenues during the quarter ended Dec. 31, 1988, the first time a film-colorization firm posted a quarterly profit.

Color Systems' suit was dismissed last March, with American Film awarded court costs. And the firm—which has a \$60 million backlog of orders—posted a \$250,000 profit for the third quarter of 1989. Jensen expects a small profit on almost \$12 million in revenues for the year, and he projects 1990 earnings of \$4 million on \$18 million in sales.

As for American Film's market, Jensen still has visions of a year-round Christmas. "There are 17,000 [black-and-white] films, 22,000 television shows, and 30,000 foreign films out there," says Jensen. "Many aren't worth coloring. But if we do 100 per year for 40 years—and we're doing 60 to 70 right now—we'd exhaust less than 10 percent of the market and would make \$1 billion in revenues.

"Maybe the resource isn't unlimited, but I'll be happy to take that kind of business over that period of time. That's what drew me into this in the first place." NB

MANAGING

Dinosaur Brains And Managing Stress

By Albert J. Bernstein and Sydney Craft Rozen

Inside each human brain lurks the brain of a dinosaur—irrational, emotional, easily enraged—waiting to take control.

Individuals who tend to allow their Dinosaur Brains to control their lives are also most likely to succumb to stress-related disorders.

Some people automatically consider job stress dangerous and bad, but stress is what's happening out there in the world. It can be deadlines, phones ringing, too many job demands, too many meetings, or the ever-present difficulties of dealing with other people.

We can't really define stress in absolute terms. Instead, it has to be defined by its effects on people.

Some people see a threat and act on it; others react. It is their internal response that causes the problem. [The] inappropriate triggering of the "fight, flight, or fright" response creates potentially harmful changes, such as increased heart and breathing rates, overworked adrenal glands, tense muscles, and so forth.

This response often leaves people physiologically in the state of going uphill in high gear, which causes a great deal of stress on the body and the psyche.

The level of arousal can be measured, and this level determines how stressful a particular situation is to a person. It's important to measure these responses, because it's often possible for people to deny that stress has any effect on them. Your family doctor or mental-health practitioner can give you information about how to measure your level of arousal. A simple method is to be aware of an accelerated heartbeat and count your pulse rate. Muscle tension, especially in the neck and shoulders and around the jaws, is another sign of hyperarousal. High blood pressure can be another indication.

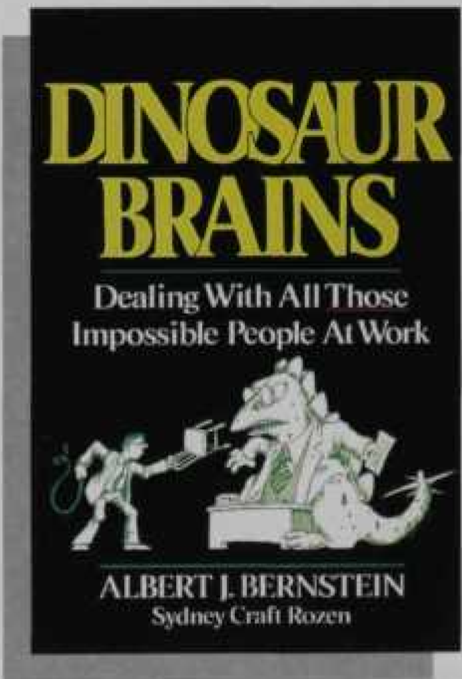
Albert J. Bernstein is a clinical psychologist and business consultant in Portland, Ore. Sydney Craft Rozen is a writer and editor in Seattle.

From Dinosaur Brains: Dealing With All Those Impossible People at Work. *Albert J. Bernstein and Sydney Craft Rozen. Copyright 1989, John Wiley & Sons.*

Over time, it's possible to learn to lower your response to stress. This process is known as coping. People use all sorts of coping strategies, some of which are healthy and make them stronger, but others undermine their ability to deal with stress.

Most of you have seen that stress test on which you assign points to life changes, and if you get too many points, you're supposed to have a nervous breakdown within a year.

Recently there was a study of executives who scored very high on the life-change scale but did not get sick. These managers were called *stress-hardy.*



They seemed to flourish in situations that would severely damage other people. How did they do it? Their most effective coping strategy was a set of beliefs about life and the job. Central were beliefs about:

Control. These executives believed that what they did made a difference in the overall scheme of things and never considered that their problems were someone else's fault.

Commitment. The hardy managers felt that they were where they should be. They had not necessarily achieved all the success that they wanted, but they felt that they were in the right line of work and the right relationships and had the right hobbies. This feeling resulted less from believing they had made lucky choices than from their tendency to really get behind their decisions once they were made.

Challenge. The hardy executives regarded setbacks as problems to be solved rather than as catastrophes. They were likely to respond to a loss in one area of their lives by taking on a challenge in another area, such as coping with divorce by learning a foreign language. These people had the capacity to soothe themselves through self-improvement.

You can learn to be hardier by acting as if you see life in the way that these executives did. Acting as if you're in control is just as good as being in control.

The bad news is that studies also show that people who most need stress-hardiness tend to prevent themselves from making the changes that would help them. They read [an article] like this and respond by thinking, "I'll do it tomorrow," or "I already know all that, but it doesn't really apply in my case," or "I don't have time." All of these excuses come straight from the part of the Dinosaur Brain that tries to protect you from new ideas.

Some coping strategies are especially unhealthy because they tend to increase your arousal over the long run. Drugs and alcohol immediately come to mind. These strategies also include getting angry, looking at a problem to decide whose fault it is, organizing your job so that it's never finished (the workaholic syndrome), and avoiding the difficult parts of your job by forgetting or being too busy to deal with them.

How should you deal with stress?

All of the stress-hardy attitudes discussed here aren't necessarily the beliefs people were born with. You can learn them and practice them daily. Studies show that people who adopt these attitudes and work with them tend to be much more resistant to stresses of all kinds.

1. Maintain a positive attitude. How you see the situations of your life determines whether those events are stressful and how much negative arousal you're going to experience. It's what you tell yourself about the world—not the world itself—that causes problems.

Stress won't hurt you in mind or body if you overcome the irrational impulses of your "Dinosaur Brain" and learn how to cope with everyday pressures.

PHOTO: ©DAVID FALCONER

Dinosaurs are extinct, *but their brains still exist—irrational, emotional, and easily enraged—as part of our own. Learning to deal with this brain can help reduce job stress, says Albert Bernstein.*

Survivors and successful people tend to share the attitude, however erroneous, that they have some control over what happens to them. [We] don't really have to tell you this, since you are reading [this article]. You obviously feel that you can do something to make things better for yourself.

2. Stick with a decision. Decide that quitting is not an option. When you've made your choice, accept it happily; the best decisions are created after they're made.

3. Think of setbacks as challenges instead of disasters. Let your cortex control, even if you're upset. Don't tap into the "If It Hurts, Hiss!" section of your Dinosaur Brain. Most conventional sources on stress advise you to cut down on the number of challenges you face, but it seems that really hardy people have developed ways to use new situations to respond to losses in other areas of their lives and to improve themselves at the same time.

4. Exercise, eat a balanced diet, take care of yourself. Obviously, it's important in dealing with stress to do all the things that the stress-management books tell you to do. Take care of your body, and it will take care of you.

5. Always take the time to have fun. Laughter and humor can take you out of Dinosaur Brain thinking, because the Dinosaur Brain has no sense of humor. It doesn't have the equipment to see anything as funny. The lizard world is deadly serious. Whenever you're laughing, your body is adjusting itself, and your stress level is going down.

6. Learn a technique to lower your physiological arousal on demand. Know what relaxing is and how to do it. [One technique that is often] used involves exploiting a defect in the central nervous system—your brain cannot tell reality from fantasy. Basically, when you think of a situation in which you're relaxed and calm, your brain can fool your body into believing that relaxation is the appropriate response. Want to try it?

This technique has many names—imagery, self-hypnosis, relaxation training. Call it what you like. Here's how to do it:

Make some time and space for yourself.

When you begin, don't do it where there is a lot of noise. Sit in a comfortable chair.

Close your eyes, take a deep breath.

Imagine the most pleasant, relaxing place you can picture. A beach, perhaps.

Try to bring to mind the scene as vividly as possible, using all your senses.

You might close your eyes and see the brilliant blue of the sky and the slow, stately shapes of clouds moving across the sky. Look out in the distance and see waves breaking on the shore; see the shimmer of heat rising from the sand.

With the ears of your mind, hear the sea sounds.

With every wave you imagine, you might pretend that the water is washing away tension.

You're becoming more and more relaxed. Let your tensions float out to sea.

Feel the waves of relaxation breaking inside your body, washing your tension away.

Can you smell the sea salt, the faint fishy smell of the beach, or the warm cool scent of the suntan cream?

The more you can remember and imagine, the more vivid your fantasy will become.

People can feel in their mind as well. Imagine what it feels like to lie on the sand and feel the warm sun on your skin, a cool breeze on your face as you lie on the quiet beach.

As you relax, you may notice that your body feels heavier and heavier as more of your weight is transferred to the chair in which you are sitting.

Maybe you've noticed this feeling when you lie down at night after a hard day, and your body seems to sink deeper and deeper into the bed.

Just for practice, make your body as heavy as possible now.

Let it sink into your chair as you read this page.

You may notice that you're feeling more relaxed, more calm.

Search for any areas of tension in your body and see how pleasantly heavy you can make them.

It might be fun to imagine yourself sinking into a cloud, or the softest feather bed in the world.

Just allow yourself to go as deeply into the relaxation as you want to.

You can stay here for as long as you wish.

When you're ready, you can return to your normal state of alertness, feeling relaxed and refreshed, and realizing that you have gained some control over your physiological responses just by using your imagination.

MARKETING

Cities Get Into The Game

By Glen Macnow

It was author Kurt Vonnegut—a native son—who dubbed Indianapolis "Naptown." Indeed, a national survey in the 1970s found that the Hoosier state capital didn't exactly have a bad national image; rather, it had no image at all.

But that was 10 years ago. These days, Indianapolis is nationally known as "Sportstown, U.S.A." Since 1979, when city officials and business leaders began a concerted effort to capitalize on America's infatuation with sports, Indianapolis has hosted more than 200 events, from the Pan American Games to the NBA All-Star Game. The contests have generated an estimated $300 million in direct funds, perhaps double that figure in spinoff revenues, and an incalculable amount in media exposure.

Indianapolis is now home to six national sports-governing bodies. Its $130 million worth of gleaming new facilities—from the 60,000-seat Hoosier Dome to the Major Taylor Velodrome for bicycle races—are among the best in the country. The city has already been chosen to host the 1991 NCAA Final Four basketball championships and the 1991 Professional Golfers Association Championships.

"Sports has created a renaissance in this city," says Susan Conner, spokeswoman for the Lilly Endowment, a private foundation that has bankrolled much of Indianapolis' redevelopment. "There is an esprit de corps that didn't exist a decade ago."

The city's success story stems from a partnership of civic and business leaders who moved in 1979 to form the Indiana Sports Corp., a nonprofit organization created to bring amateur sports events to Indianapolis.

The Sports Corp., which started with one full-time employee and now has 25, was the first in the nation designed to identify, bid for, and host sporting events systematically. It did not remain alone for long. The Indianapolis model has spurred dozens of American cities, large and small, to join in the competition to lure sports dollars to their communities. About $50 billion was spent on all aspects of sports in the U.S. in 1987, and the figure is rising.

Glen Macnow covers the business of sports for the Philadelphia Inquirer.

Indianapolis *"has come to believe in itself through sports," says Sandy Knapp, president of the Indiana Sports Corp.*

PHOTO: © MARY ANN CARTER

Today there are more than 30 commissions—many of them offshoots of their cities' chambers of commerce or tourism divisions—slugging it out for sports events. A few groups are charged solely with seeking major-league franchises or new stadiums, but most are closely copying Indianapolis' methods.

"It's amazing how much competition there is for some of these events now," says David W. Brenner, a former Philadelphia commerce director and now president of the city's Sports Congress. "And it's not just the big ones like World Cup soccer. We bid for [and later got] the 1990 NCAA men's volleyball championships. Ten years ago, maybe one or two cities would have sought that event. This year, there were many, and each city was making a better offer than the last."

To invigorate their economies, dozens of American cities—many inspired by Indianapolis' success—are joining the competition to attract sports dollars to their communities.

PHOTO: © MARY ANN CARTER

The 1987 Pan-Am Games, *shown above, drew more than 1 million spectators to Indianapolis, host to more than 200 sports events in 10 years.*

Competition for sporting events of all sizes has increased, and no one wants to be left out. Cities with fewer than a half-million people have formed sports commissions, which now bravely march into sports boardrooms seeking to compete against Los Angeles and New York. Florida has no fewer than seven separate sports authorities, which often end up banging heads in trying for the same events. Indeed, a Florida state advisory council was formed last year to try to keep representatives of the various sports groups from disparaging one another.

But why sports? Why are cities vying for events such as the national women's softball finals when there are major industries to compete for?

The answer lies in both economics and image. Sporting events are now regarded much like conventions—they attract affluent tourists who stay in hotels, eat in restaurants, ride in taxis. An economic-impact study in Utah in 1985 concluded that "sporting events have the potential of producing significant revenue for the state."

The economic impact of hosting a Super Bowl is considered to be at least $125 million. An NCAA Final Four is worth $40 million. But even a regional body-building competition flexes some financial muscle.

"We figure that if we can land just 5 percent of the amateur events in the country, we'll get an economic boost of $30 million to $50 million annually," says Mike Millay, executive director of the New Orleans Sports Foundation. Millay's group recently wooed 1990 stops for the U.S. Tennis Association tour, the Miller Lite Pro Beach Volleyball tour, the International Body Building championships, and the Women's National Rugby Championships. "Individually, those small events may not sound like much," he says, "but when you add them up, they really help the city economically."

Beyond that, sports may be the ultimate in light, clean industry. And they can bring more positive exposure to a city in one weekend than a manufacturing plant might in a hundred years. When Buffalo was named last December as U.S. host city for the 1993 World University Games, Mayor Jimmy Griffin predicted: "This ought to bring us more good publicity than anything that has come to Buffalo since the [1901] Pan-American Exposition."

The quote might seem curious, since President William McKinley was assassinated at that event, but the point is well taken. For evidence, look no farther than Indianapolis.

"We had an awful self-image," says Sandy Knapp, president of the Indiana Sports Corp. "People here had been told for so long that Indianapolis was a dying city that they were starting to believe it. But now, we're getting positive national media coverage, and the residents have responded. We had 6,700 volunteers, literally unsolicited, when we hosted the 1982 National Sports Festival. This city has come to believe in itself through sports."

Knapp, perhaps more than anyone,

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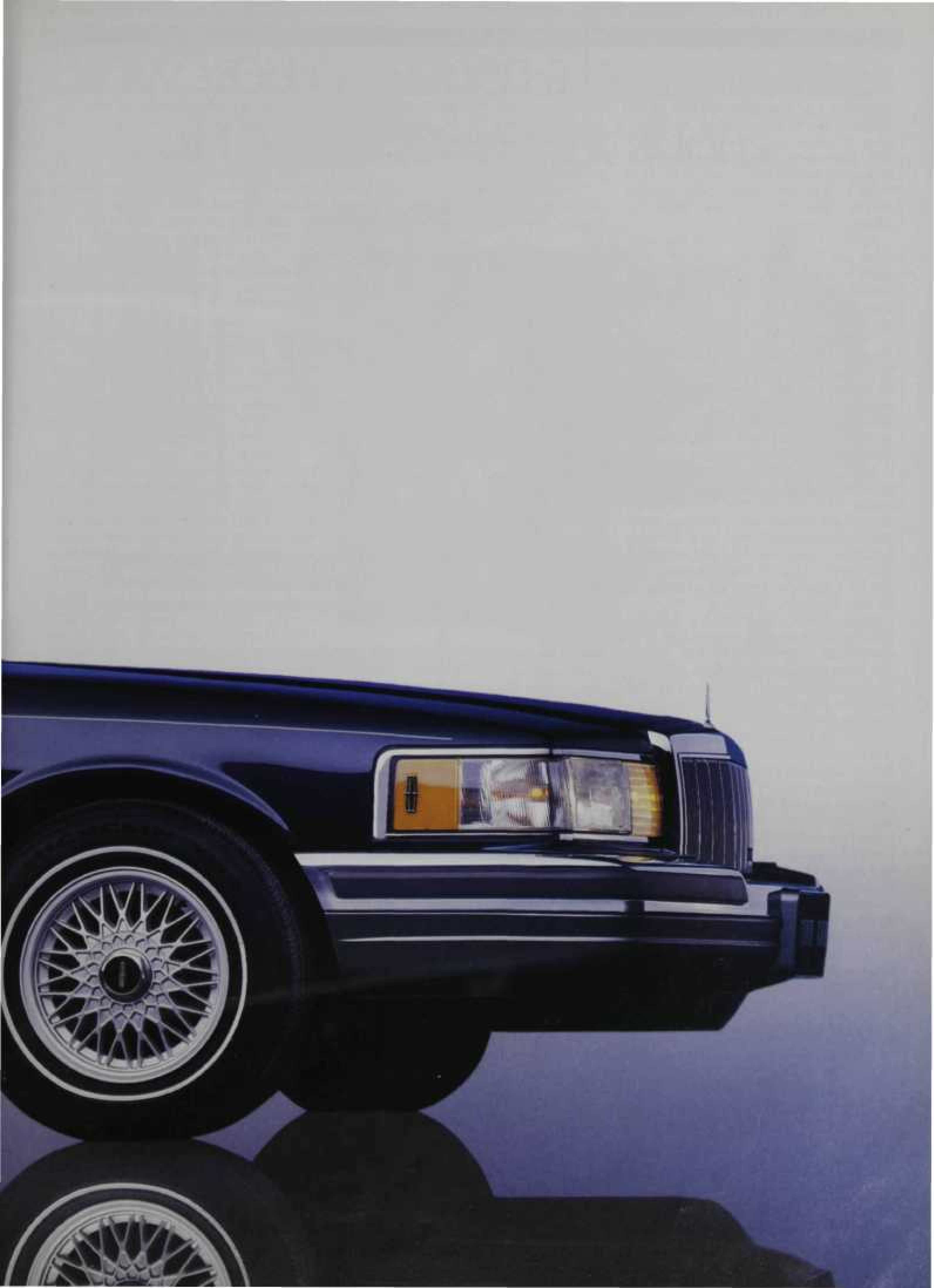

MARKETING

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deserves credit for that. She has been president and executive director of the Indiana Sports Corp. since its beginning 10 years ago. "She is an impressive, persuasive, imaginative, and well-organized advocate for this city," says John L. Krausse, Indianapolis' deputy mayor. "She's the best cheerleader Indianapolis could have."

Knapp, 44, shies away from that title, since she began her career in 1970 as a cheerleader for the Indiana Pacers basketball team. "We didn't really dance or cheer," she recalls, "we were more like glorified models."

Within three years, Knapp moved up from modeling, to billing and receiving, to promotions director, and eventually to vice president of promotions and marketing for the Pacers. At the time, she was the only woman holding a management position in the old American Basketball Association.

In 1979, a coterie of Indianapolis business leaders identified five areas in which they felt the city should strive toward excellence and a national reputation—education, arts and culture, health and medicine, food and nutrition, and sports. Out of that planning, the Sports Corp. was born, with Knapp as its only employee.

Today, the Sports Corp. is a self-sustaining, not-for-profit corporation with an annual budget of $700,000. But in the beginning, Knapp had no office, no staff, and no money—until the Lilly Endowment came up with a six-figure start-up grant.

The Lilly Endowment, one of the five largest charitable foundations in the nation, has been crucial to Indianapolis' success in sports. The private foundation was started by three members of the Lilly family; the pharmaceutical manufacturer Eli Lilly and Co. is Indianapolis' largest employer. The foundation has donated more than $300 million to the city. A $25 million grant got the Hoosier Dome started. Other contributions went toward building Market Square Arena, the Indiana University Natatorium, the National Institute of Fitness and Sport, the American College of Sports Medicine, and other facilities for skating, bicycling, and track and field.

Indianapolis business leaders have become involved as well. When the Pan-Am Games came to the city in 1987, developer Michael Browning persuaded local contractors to donate their services at cost, and they built the Pan American Plaza, a 12-story office building that stands as a monument to the role played by amateur sports in the city's revitalization.

The office building, which includes two skating rinks, was then turned over to the Sports Corp., which is housed on the top floor. Thirty percent of the rest of the building is rented on a subsidized basis to the sports-governing bodies headquartered in Indianapolis. The rest is rented—for profit—to private companies.

"I know it sounds as if everything we did involved great planning," says Knapp, "but, to be honest, we never had a five-year plan of any sort. Sometimes we would just throw up a trial balloon to see if it worked."

PHOTO: MARY ANN CARTER

Being a big-league *sports city—here the Colts' Eric Dickerson carries the ball against the Chicago Bears—has given Indianapolis a big boost.*

The first balloon was floated in 1980, when the Sports Corp. bid for the 1982 National Sports Festival, now called the U.S. Olympic Festival. At the time, the city had no track-and-field stadium, no natatorium, no softball fields, no velodrome, and not much image. "We did it with bluster," Knapp admits. "We used a lot of smoke and mirrors."

Whatever the way, it worked. Indianapolis won the bid, and the facilities—funded with city, state, and private money—materialized. Thousands of volunteers helped stage the festival, which set records for ticket sales and attendance. The city's new image as "The Amateur Sports Capital of the United States" took hold.

Since then, more and more hopefuls have sought to mimic the Indiana Sports Corp.'s formula. Recently, Knapp spoke at a Business of Amateur Sports symposium in Orlando, Fla., and found 150 rapt listeners making notes on what she said. "It made me think," she says, "do I really want to give out all our secrets?"

The keen competition has spurred some sports commissions to hire specialists and sports-marketing firms to help cities make their pitches for events. And it has prompted the organizers of events to ask cities for a greater return. The U.S. Gymnastics Federation had three serious bids for its 1984 Olympic trials and 14 bids for the 1988 trials, which went to Salt Lake City. The growing interest enabled the federation to ask for—and receive—production expenses, a minimum $100,000 event fee, and 50 percent of all ticket revenues.

And that, some say, is a dangerous trend. Robert Baade, a professor of economics at Lake Forest College, in Lake Forest, Ill., expresses concern that sports will be overrun by "ruinous competition" among cities "caught up in a captive parity syndrome."

He says: "City leaders argue that they need sports because it brings in dollars, but it has more to do with psychology. To be identified as big-league gives a city a big boost. People see sports as an indication of their worldliness or their city's standing. More than economics, it's an issue of civic monumentalism.

"Indianapolis had a good idea, and it worked for them. But do we really think that every city in the country can copy that idea effectively? There just aren't enough sports events to go around."

Baade says that cities without major sports are now building expensive stadiums just to remain competitive, citing the $170 million Alamo Dome planned for San Antonio, Texas. "I envision a whole string of white-elephant stadiums and white-elephant sports commissions around the country," he says.

Others are not so sure. "Yes, there's only one Super Bowl a year," says Millay, in New Orleans. "But those smaller events can also be very beneficial for a city—and there are enough of them to keep everyone in the game."

And for now, more cities are seeking entry into that game. Baade expects the number of sports commissions to top out at about 60, or about double the current number. Most will have just a few staff members and an annual operating budget of under $250,000. All will seek a piece of the same pie.

"To be honest, I'm surprised more cities aren't getting into this area," says Indianapolis' Knapp. "Some people may feel that many of the events we host are small-time, but each one means more exposure, and most make some money for the city. What more could you ask for?" NB

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TECHNOLOGY

Office Gear On The Go

Cellular technology has put working America on the road. Here is a sampling of portable office machinery now affordable for millions.

By Steven Advokat

PHOTO: © RICHARD LEE

Taking calls *in his van enables locksmith Craig Brummel to go directly from job to job.*

It's Sunday noon, and locksmith Craig Brummel is at work. He already has helped two customers and is in his van talking by telephone to a third. "On some Sundays, we go all day long," says Brummel, of Royal Oak, Mich. "When people call with emergency work, they want to know you're going to take care of them."

Insurance agent Dane Gussin, of West Bloomfield, Mich., eases into his 1987 Jeep, hits a button, and listens to his telephone messages.

"I average driving about two to three hours a day," Gussin says. "Even if I'm driving between appointments, my clients have to be able to get me."

More and more business men and women are discovering that the office can go almost anywhere they go. With the spread of cellular technology and the widening array of portable electronic equipment, increasing numbers of workers no longer are required to spend certain hours in an office to do their jobs.

Steven Advokat writes for the Detroit Free Press.

The technology also can improve operations for companies already on the road. Some courier firms, for example, have equipped vehicles with computers, which are linked to the office by cellular telecommunications. Drivers get assignments on their computers, print hard copies on attached printers, and go from job to job without having to return to home base. Vehicles with such equipment can be tracked wherever they are. In addition, using computers in vehicles for purposes such as inventory control can help keep costs down.

"The whole concept of work as we know it is changing," says Stuart Crump, co-author of *The Portable Office* (Acropolis Books, $16.95). "There is a better way than lining up at 9 a.m. and again at 5 p.m. getting to and from work. This new concept involves work performed when and where it's most convenient to perform it."

Adds Michael Meresman, editor of *The Mobile Office*, a new publication scheduled to debut by year's end: "We're definitely moving away from the standard office working situation. The trend is for people to make better use of their time and have a more flexible work situation. Mobile electronics definitely helps that."

Electronics companies have taken note of this growing market by developing products and services for people who want the convenience of being able to work wherever they happen to be, whether it's an airport, plane, train, automobile, or blanket on the beach.

In just the past two years, manufacturers have introduced such items as pocket telephones—some weighing less than a pound—along with battery-powered portable computers, facsimile machines, printers, answering machines, copy machines, and even paper-shredding devices, all of which can be operated almost anywhere.

One concept of the ultimate mobile office is a specially outfitted Cadillac limousine offered by General Motors. The limousine—called the "Trump Cad-

illac" after multimillionaire Donald Trump—comes with two cellular telephones, hands-free intercoms, a 110-volt electrical outlet, a mobile fax machine, a remote-control television, a video recorder, a paper shredder, and a price tag of $80,000.

You don't have to be Donald Trump, however, to afford the equipment that allows you to work from your own car or truck. Here is a sampling of portable-office products now within the reach of millions of business people:

PHOTO: PAUL FETTERS

On-board computers keep drivers *for courier firms in touch with home base, and the vehicles can be tracked anywhere. Printers attached to the computers give drivers hard copies of their assignments.*

Cellular Telephones

Cellular-phone technology is often called the linchpin of the mobile office. Without it, much of the other high-tech portable equipment would be essentially useless.

The technology allows calls transmitted over special frequencies to be handed off automatically from one broadcast "cell," or geographic area, to another while phone users are driving. The technique, which became commercially available in 1984, has vastly extended the range, usefulness, and economy of mobile telephoning.

In 1987, consumers bought about 300,000 cellular phones. Last year, sales reached 350,000. "Expectations are that next year 4 million people will own cellular phones," says Al Blackford, vice president of sales for California-based Cellabs, which sells cellular-phone adaptors that enable facsimile machines and computers to be operated from a vehicle. Industry analysts predict that, as prices and usage fees continue to fall, more than 12 million cellular phones will be in service in the U.S. by 1995.

The development of cellular phones has made it possible for the largely idle time spent commuting in cars to be used more productively, such as by calling customers, arranging appointments, and conferring with associates.

But talking with clients and colleagues is only a small part of doing business. Exchanging information from machine to machine while on the road is also becoming easier because of modems and miniaturization. Modems are devices that allow computers to "talk" to other computers over the telephone. Miniaturization of electronic components permits devices to be more compact.

Thus, it is now possible even for businesses on limited budgets to load a car or van with an array of portable office equipment, including fax machines, word processors, copiers, and printers, and to exchange almost any kind of data instantly with anyone anywhere who has similar machines.

"People got used to receiving messages on their cellular phones," says Judy Pirani, an industry analyst with CAP International, a market-research company in Norwell, Mass. "The next logical step was to get documents—blueprints and so forth—on a mobile fax."

Facsimile

As recently as two years ago, few companies used facsimile machines—devices that transmit text and graphic images from one source to another over telephone lines.

Today, the fax machine is generally considered a business necessity, and it is commonplace for a company to include a "fax" number on its stationery. Fax machines have rapidly evolved from bulky desk-top units to light, take-along devices.

"We see a great need for these products by salesmen, insurance agents, truckers, law-enforcement people, real-estate agents—all sorts of people," Steve Petix, product manager for Savin Corp., says of his company's SX 1000 portable fax machine.

"Just about every office has a fax machine. Putting a fax in a car means you have this huge network to communicate with."

"As cellular phones increase their penetration into small businesses, you'll see the rate of fax machines in that market increase," says David P. Bergevin, marketing manager for Toshiba America's Telecommunications System Division. "In the next few years, fax machines will increase to a fairly sizable segment of the small-business market. So you try to design your product so it is easily transferable from an office to a car market."

Savin is among several companies offering fax machines that can be operated from a cellular phone. Another is Medbar, a division of PortaFax Corp., which sells the PortaFax III ($1,995), an 8.5-pound, battery-operated fax. Soon on the market will be Panasonic's briefcase-size KX-F80, which is a combination telephone, fax machine, and answering machine, and is priced at $1,095.

They are joined by Toshiba America, Ricoh Corp., Nissei Electric USA Inc., and others, all of which have jumped into the portable-fax business with products priced as low as $1,400.

By 1991, industry analysts say, 90 percent of all fax machines will be priced at under $1,000.

Laptop Computers

"It used to be unusual to see someone type on a laptop computer in an airplane; now it's routine," says Chuck Russell, product manager for Sharp Personal Home Office Electronics, a division of Sharp Electronics Corp. "On a flight I took last week, I counted four people—including me—using a laptop."

Two developments have contributed to the popularity of laptop computers: They've become lighter and more powerful.

The newest laptops can accommodate programs that enable business people to do such complex assignments as desktop publishing and spreadsheet

TECHNOLOGY

work while on the go, then to transfer the material into a larger PC by telephone, data-storage disk, or direct cable.

Buyers can choose a laptop to fit their needs from a score or more of well-known brands, including Zenith, Tandy, Compaq, NEC, Epson, Toshiba, Bondwell Industries, Sharp, Datavue, and Amstrad.

Currently the lightest machine, weighing only 4 pounds, is NEC's UltraLite. It is a full-featured computer in a case about the length and width of this magazine and 1.5 inches thick. It is priced at $2,995, and it has 640,000 bytes of memory, a 2,400-bit/sec. modem, a 78-key keyboard, and connections for credit-card-size ROM software cartridges. It has much of the power and versatility of a full-sized PC. "You don't have to make any compromises with it," according to NEC spokesman Grant Schneider.

Challenging the UltraLite, Zenith Data Systems recently introduced a 5.9-pound laptop, starting at under $2,000 and featuring up to 2 megabytes of memory, a new 2-inch floppy-disk drive, and back-lighted screen that the company says can be read easily even in bright sunlight. Toshiba offers no fewer than 11 laptop models ranging from $1,250 to $10,000.

Printers And Copiers

Processing information on a laptop computer is only part of the job. Sometimes, being able to print hard copies of your work in the field can be crucial.

"As the laptop market explodes, the next thing to come is a portable printer," says Diane Garay, Toshiba America's product manager in the printer-marketing division. "People want the ability to print on the spot. If you provide them with a small-enough printer, they won't mind carrying it along with them."

Kodak and Toshiba have introduced battery-powered printers small enough to be called truly portable. The Kodak Diconix 150 Plus weighs only 3¾ pounds and measures 11 by 6.5 by 2 inches. Toshiba's ExpressWriter 301 weighs 4 pounds and measures 12 by 6 by 3 inches. Both can print letter-size pages on ordinary paper, and both sell for under $500.

Even copy machines have not escaped the miniaturization process. Several years ago, companies such as Silver Reed and Plus USA offered hand-held copy devices that reproduced on a thin strip of thermal paper the printed material over which the device was passed.

Those copiers had limits, however, including their inability to copy a full page the size of a typical letter.

Newer hand-held copiers, offered by companies such as Sony, Sharp, Ricoh, and Canon, are better than earlier versions, although they still can copy only small amounts of material at a time.

The Ricoh MC50 ($560) weighs just 3 pounds and makes copies about the size of a dollar bill. It is useful for copying or storing bits of information, such as stock quotations from a newspaper.

special printer available as an option.

Atari's Portfolio ($399) is an MS-DOS-compatible personal computer that weighs just over a pound and includes a 63-key keyboard and programs for word processing, spreadsheet, address-book, calendar, and calculator functions.

Psion's hand-held Organiser (LZ) also is IBM-compatible. It uses memory

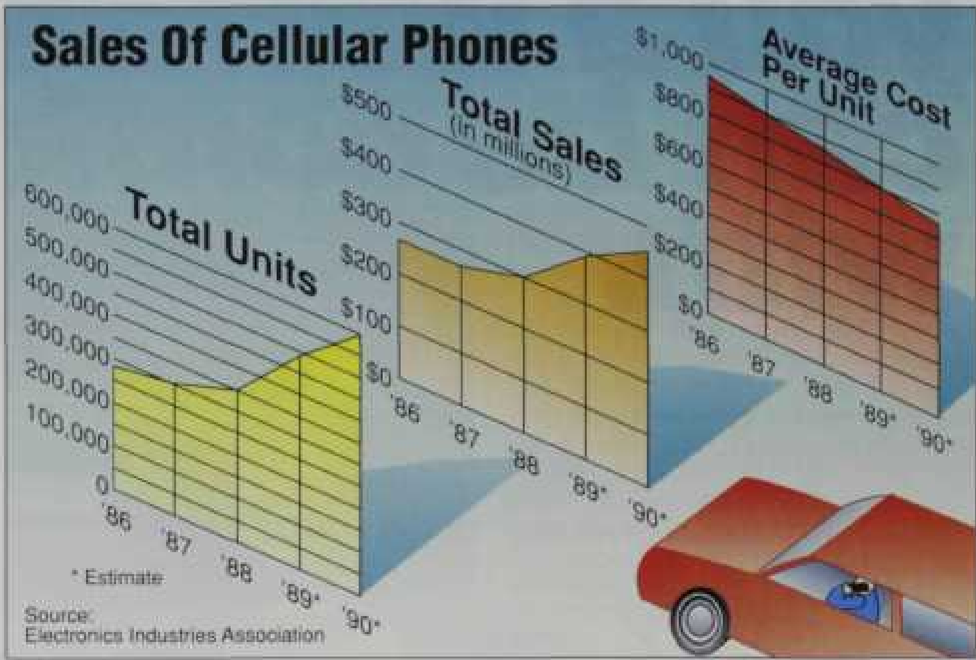

CHART: SAM WARD

Sony's Pocket Copier ($160), part of a new Sony line of personal office products designed for use outside the traditional office setting, is a 4.6-ounce device that copies in ¾-inch strips up to 8 inches long. It is battery-powered and makes copies on plain paper by using a heat mechanism applied to a coated ribbon.

For copying full pages, Sharp offers the portable copier model Z-30 for $999, and Canon sells the model PC-311 for $745. Both have folding handles, but at 25 pounds each, these copiers can barely be lugged.

Electronic Note Pads

Miniature electronic organizers, which have been around for years, have grown so versatile and powerful that using them now is like having a computer that fits in the palm of your hand.

Sharp's Wizard ($299) is not much bigger than a pocket radio, yet it features 32,000 bytes of memory—the equivalent of 16 pages of single-spaced text—and a screen that can display eight lines of material at a time. It has a phone directory, calendar, schedule planner, calculator, clock, and secret mode for storing sensitive data.

Special program cards allow data to be uploaded or downloaded between the Wizard and any IBM-compatible PC. The Wizard also can print files on a

packs that can be plugged in 64K at a time, up to 256K memory. The Psion's programs, called Datapaks, can handle word processing, spreadsheet work, and other business tasks. Organiser (LZ) sells for $299. Portable printers and modems also are available for the Organiser. Psion says it soon will introduce an accessory that will enable the unit to attach to a portable fax machine.

Electronics experts are enthusiastic about office products of the future and their potential for shouldering more burdens.

Ricoh, for example, is developing an in-the-dash fax machine. And Sharp is designing an optical scanner that will enable the user to wipe a laser wand across a page and pick up whatever is on the page, store it in a microcomputer, and later transfer it to a computer workstation.

On the horizon, the experts see even smaller, more useful electronic tools that inevitably will make the movable office a practical option for many millions of people.

"This is only the very beginning," says author Stuart Crump.

"Even though we don't know yet the full impact of the cellular office, it's clear that it will eventually change the entire nature of how we do work." NB


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FINANCE

Why The Dollar Isn't What It Was

The National Chamber Foundation has updated its guide for determining the change in the value of the dollar. The guide gives a formula for translating sales, incomes, costs, and other dollar values as far back as 1966 into their 1989 equivalents. A multiplier for a given year shows how many 1989 dollars are needed to match the purchasing power of the earlier year's dollar. The 1979 dollar, for example, was worth $1.71 compared with today's dollar. Thus, a person with income of $50,000 in 1979 would need $85,500 to have equivalent purchasing power today.

A property that sold for $100,000 in 1969 should sell for $337,000 in 1989 just to recover the original investment; any profit would be above that level.

"The value of money changes regularly," says Martin Lefkowitz, director of special projects for the National Chamber Foundation, an affiliate of the U.S. Chamber of Commerce. "While we think of a dollar as a fixed amount, the value of that dollar in terms of what it can purchase changes constantly."

Following is Lefkowitz's formula for casting today's dollar against equivalent levels of previous years.

YEAR	MULTIPLIER
1966	3.81
1967	3.71
1968	3.56
1969	3.37
1970	3.18
1971	3.06
1972	2.95
1973	2.79
1974	2.51
1975	2.30
1976	2.18
1977	2.04
1978	1.90
1979	1.71
1980	1.50
1981	1.36
1982	1.28
1983	1.25
1984	1.19
1985	1.15
1986	1.13
1987	1.09
1988	1.05
1989	1.00

Mary Irving and the $35,000 cleanup.

"When I was a Room Attendant, I found all kinds of things left in the rooms, but never anything like this," said Mary.

"I couldn't believe it when a guest called to ask if we'd found a certified check for $35,000.

"I went back to his room and there it was on the desk. Of course I sent it right out to him. Any time a guest calls about something he's left behind—even a pair of glasses—it must be important. So we do everything we can to return it."

As Assistant Housekeeper, Mary now supervises dozens of Room Attendants.

"Every room must be spotless, or I send someone back to make it right. If a chair isn't in perfect condition, we replace it and send it to our paint or upholstery shop, right in the hotel.

"If you need a straight-backed chair or a special pillow, just ask," Mary adds.

"Most of us have been here for years—we think of The Drake's guests as our guests."

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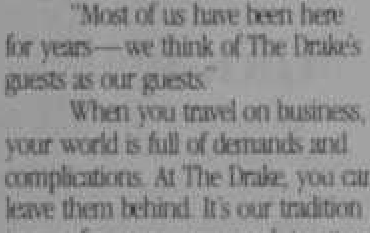

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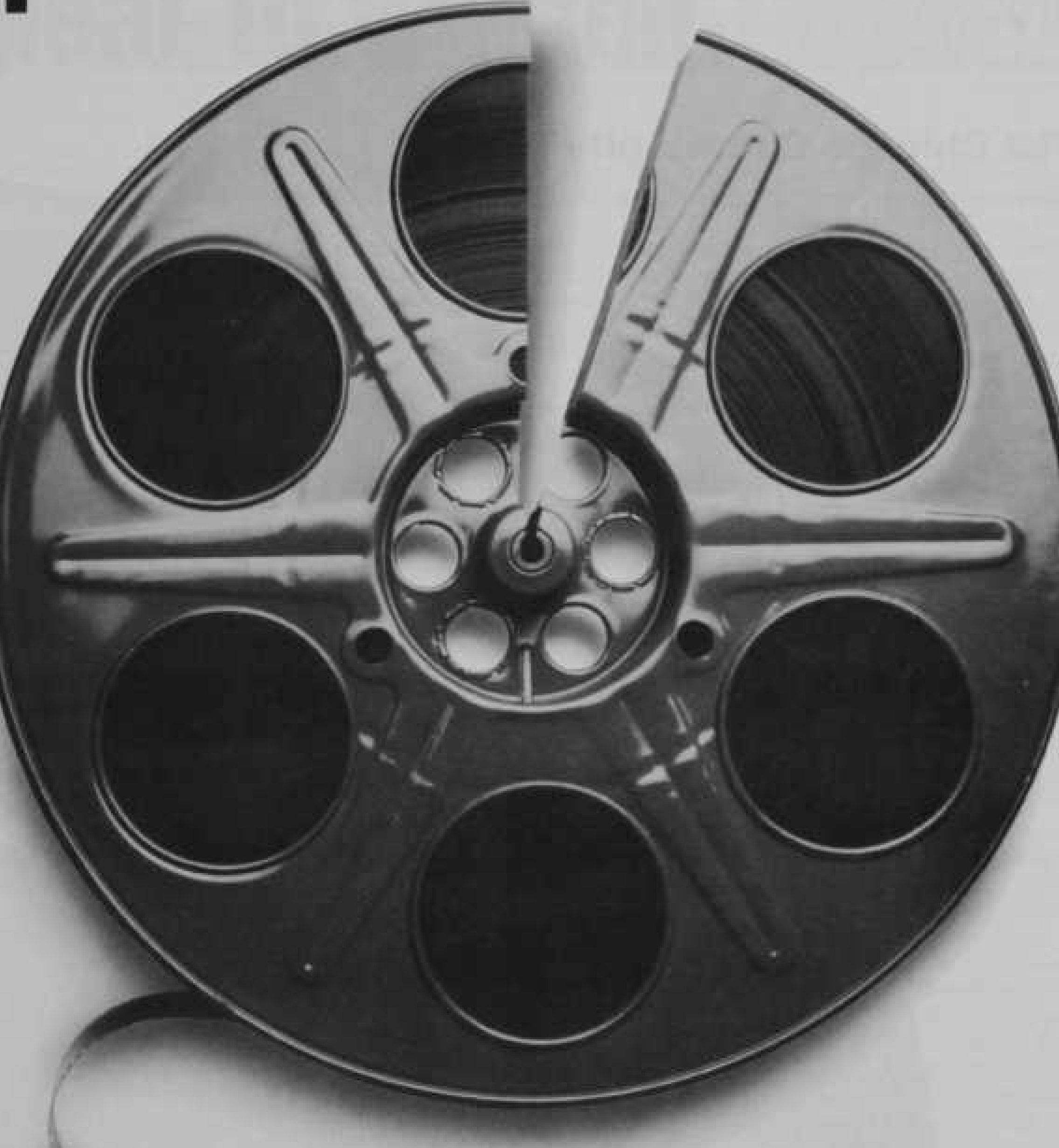

Just a fraction of our time watching movies could help bring many happy endings.

If we all shared just a small part of the things we take for granted in life, we could take better care of the things which have become taken for granted in our community. Like conservation. The Arts. Or education.

Millions of people have helped establish five percent of their incomes and five hours of volunteer time per week as America's standard of giving. If we all reached this standard, we could generate more than \$175 billion every year. With a force equivalent to 20 million full-time workers.

This year, make it your goal to give five. And help bring the curtain down on society's problems.

Give Five.

What you get back is immeasurable.

Franchising's Appeal To Women

To earn more and to advance professionally, women are choosing to become business owners—particularly through franchising.

By Meg Whittemore

When she opened her first Coffee Beanery, a gourmet retail coffee shop, in 1976, JoAnne Shaw says, "I felt I had the ability to make something happen, be independent, and do it my way. I knew that if I didn't grab the opportunity, I wouldn't have another chance."

That determination led Shaw to become part of the then-emerging trend of women becoming business owners. Now, at 45, she heads The Coffee Beanery Ltd., a company with more than two dozen franchises. Today, more than 4.1 million women own or operate businesses in this country, according to statistics gathered by the Small Business Administration (SBA). Women are turning to business ownership not only to reach their earning potential but also to avoid the "glass ceiling"—the invisible barriers to professional advancement that some women in large companies say they encounter because they are women.

The SBA says that women are starting businesses at one and a half times the rate of men. "The majority of those are service businesses," says Lindsey Johnson, director of the SBA's Office of Women's Business Ownership, "so women are moving into the cutting edge of business development—and we're good at it."

Franchising contributes significantly to the swelling numbers of female-owned companies, and women are entering business ownership through franchising in increasing numbers.

"Women are not reaching their potential in the corporate business structure," says Susan Kezios, president of Women In Franchising, a Chicago-based trade association. "They are looking for a change, and increasingly they turn to franchising as a new career opportunity."

In 1988, out of 280 franchise companies surveyed by Women In Franchising, 10.9 percent were owned by women, and 21.6 percent were owned by male-female partnerships. "Since start-up capital continues to be a stumbling block for women entering franchising, many are teaming up with a financial backer as a partner," Kezios says.

Initial financing isn't the only challenge facing women entrepreneurs. Often, Kezios says, women avoid taking the plunge because they lack bottom-line skills. "I tell them to take their God-given service-oriented talents and match them up with an entrepreneur who can teach them cash-flow forecasting, marketing, advertising, and payroll," she says. Franchisors are eager to tap into the potentially huge pool of female entrepreneurs, and filling in the gaps with specialized training is often part of the franchise offering.

PHOTO: © A. DAVID KRYSZAK—BLACK STAR

The daily ritual *of pouring a good cup of coffee served up the idea for JoAnne Shaw's franchised business, The Coffee Beanery.*

JoAnne Shaw makes sure her franchisees are fully trained in every aspect of running a business. "I know what it's like to start a business and be unfamiliar with bottom-line skills," she says. "It's no fun, and you lose money." Shaw took the daily ritual of pouring a good cup of coffee and carved out a place for herself in the fastest-growing segment of the coffee industry. Last year, the 28 franchises of The Coffee Beanery generated over $5 million in sales, and they are expected to top $7 million this year.

Shaw ensures that her products are premium. Coffee beans are imported directly from Central America and Africa, to be roasted, decaffeinated, and flavored at the headquarters store in Flushing, Mich., then packaged and shipped directly to franchisees. Shaw is now working on offering customers a mail-order service and gift packets.

Life in the coffee business wasn't always so bright, however. "In the '70s, I was in the office coffee-service business, and I heard a lot of people say they really didn't like coffee," Shaw says. The gourmet coffee industry was small, she adds, and "we spent lots of time educating the customer on what a good cup of coffee tastes like." Today, she can charge an average $8.99 a pound for coffee.

Shaw decided to put her outlets in shopping malls, a costly decision but one that was necessary for continued customer flow. "We tend to be an impulse store," she says. "People drop in to take a break from their shopping. We just couldn't get that kind of casual traffic in a strip center or street location."

The first Coffee Beanery cost Shaw $90,000 to open in 1976. She financed the whole amount with a second mortgage on her home and by putting up her family's two vehicles as extra collateral. "I offered my kids as collateral, too," she jokes, "but the bank wouldn't take them." Today, franchisees need about $145,000 to join what Shaw considers her franchise family. "Since we started in franchising in 1985, we find that our franchisees are a wealth of information and help us to be a better franchisor," says Shaw. "They come to us with great ideas, and it becomes a team effort."

Responsiveness to the needs of franchisees is the current watchword for success in today's world of franchising. Experts have long warned franchisors to expect trouble if they neglect their franchisees. Audrey Sedita, 56, founder of Women's Workout World (WWW), low-cost health clubs for women, is both a franchisor and a franchisee, and she has discovered the importance of good franchisee relations. "When I became a franchisor, I remembered the things I resented about being a franchisee and made sure my franchise agreement addressed those issues," she says. Sedita was a franchisee with Elaine Powers Figure Salons in New Jersey and Florida

from 1967 until 1982, when she sold her 33 units and started WWW in the Chicago suburb of Morton Grove, Ill. Franchises were offered four years later.

Sedita has extensive experience in the health and fitness industry and in business ownership. While she was a franchisee for Elaine Powers, Sedita also started her own women's fitness business, Lovely Lady Figure Salons, and operated 15 centers. She sold that business, too, before embarking on WWW. Her current franchisee affiliation is with Jenny Craig Weight Loss Centers in New Jersey, New York, and Connecticut. "Being both a franchisor and a franchisee gives me good insight," she says.

Women's Workout World has 15 company-owned and 11 franchised units, and Sedita prides herself on knowing what works and what doesn't work in fitness clubs for women. "When aerobics began gaining popularity in the late 1970s, I knew the 4,000-square-foot, equipment-intensive facilities I was running would be outdated quickly," she says. So she sold her Elaine Powers units and Lovely Lady centers and moved to Chicago to start WWW. "Having experienced control problems running health clubs all over the United States, I decided to franchise," Sedita says, "because franchisees have a vested interest in making the centers succeed—they're owners."

WWW franchisees invest $150,000 to $200,000 to open a center. That includes the franchise fee, leasehold improvements, and equipment. There is a 10-percent monthly royalty on gross sales. In return for the royalty, the WWW franchise agreement states that Sedita, the franchisor, must carry out certain obligations for her franchisees. "I must give them good business advice, good promotion and advertising, training seminars, marketing advice, and current material," she says. "If I don't, my franchisees have the leverage of the agreement to make me perform." It's a kind of insurance that guarantees the business relationship is a win-win situation. It appears to be working. Last year, WWW tallied $7 million in sales, and sales are expected to increase 10 percent this year.

The built-in support systems, proven business methods, and the chance to have full responsibility for growing a business are clearly attracting women to franchising as a way to achieve business ownership with a minimum of risk. Women franchisees and franchisors alike are becoming role models for women seeking entrepreneurial success. NB

INTERNATIONAL TRADE

Openings Abroad For Enterprise

Political changes in Socialist countries open the way for the Center for International Private Enterprise to foster market economies.

By Albert G. Holzinger

Something astounding is happening at Karl Marx University in Budapest, Hungary. Adam Smith's *Wealth of Nations* is replacing Marx's *Das Kapital* on the bookshelves of many business and economics students. What's more, this phenomenon is attributable to more than youthful impetuousness.

These youths are among the increasing numbers of Hungarians of all walks of life who are speaking out now against central economic planning. These same people are turning to market economics as a means of revitalizing the Hungarian economy, which is sinking under the weight of massive state subsidies of consumer prices and unproductive public enterprises, hyperinflation, and one of the world's highest per-capita levels of foreign debt.

The U.S. Chamber of Commerce is helping to foster the burgeoning free-enterprise movement in Hungary and nearby Poland through three grants by an affiliated organization, the Center for International Private Enterprise (CIPE). (See the box on Page 68.)

CIPE has earmarked $30,000 to Karl Marx University for an additional class in entrepreneurship and Western-style management. The university's waiting lists for classes in those subjects are several times longer than the rosters of those classes.

While interest in economic reform is growing rapidly, after 40 years of Socialist indoctrination, there is still deep resentment among some of the population toward emerging Hungarian entrepreneurs, according to John D. Sullivan, program coordinator for CIPE. So the organization is providing $60,000 for pro-enterprise television commercials, which will air throughout 1990 on Hungary's state-run network.

Both grants in Hungary will be administered by the Association for Hungarian Entrepreneurs. The 4,000-member association, formerly an adjunct of the Hungarian Chamber of Commerce, gained legal status in 1988.

In Poland, another Eastern European nation whose people are abandoning the Marxist-Leninist model of society, CIPE is making just over $60,000 available to the Krakow Industrial Society (KIS). The 3-year-old society will use some of the CIPE money to encourage formation of new businesses and train fledgling entrepreneurs. KIS will use the remaining funds to lobby the government of recently elected Prime Minister Tadeusz Mazowiecki, the first non-Communist government in a Warsaw Pact country in decades, for pro-enterprise amendments to laws and regulations and to present business views in key commercial-law cases.

"Until now, we have not supported projects in Eastern Europe because of the lack of viable private-sector business organizations that could carry them out," says William T. Archey, executive director of CIPE. "But the changing economic climate in the Communist world allowed us to take another look at that situation. The collapse of Marxism as an ideology and the bankruptcy of Soviet-type economies have opened the way for ... organizations devoted to building the free-enterprise systems of their nations, with Hungary and Poland leading the way."

Grants by CIPE make up just one element of the U.S. Chamber's overall effort to promote free enterprise in nations where governments rather than market forces control their economies, says its president, Richard L. Lesher. This fall Lesher will meet in Hungary and Czechoslovakia with leaders of those nations' economic-reform movements.

The Chamber also sponsors bilateral business councils in several Eastern-bloc countries, Lesher points out. The councils, composed of representatives of U.S. and local firms, serve as vehicles for encouraging greater commercial cooperation between nations and incubators for free-market ideas.

PHOTO: © PETER KORNISS—BLACK STAR

Karl Marx would not be pleased *to hear students at the Budapest university named for him now opposing central economic planning.*

The Chamber's International Policy Division also may begin raising start-up funds soon for an East-West Institute for Economic Relations, says Archey. He envisions the institute as "a timely, first-rate organization" to give technical help to Eastern-bloc countries that want to reform and U.S. firms that want to trade or invest there.

And, according to Sullivan, CIPE is preparing to launch a first-of-its-kind economic survey of more than 40 highly indebted but reform-minded countries in Central and South America, Eastern Europe, and Africa as well as some of the affluent newly industrialized nations in Southeast Asia. Researchers


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will attempt to determine from the survey "what you can do, must do, and cannot do in achieving market-oriented reforms," Sullivan says.

"We see political as well as economic reforms instituted by some Communist and Socialist countries as quite promising, and we want to do whatever we can to foster them and others," says Lesher, who has become a global ambassador for free enterprise. The most dramatic of Lesher's many recent international speaking appearances was in China last summer, several weeks before the government troops of Supreme Leader Deng Xiaoping massacred students occupying Tiananmen Square in Beijing. Lesher addressed 1,400 students at the University of International Business and Economics, also in Beijing, on the long-term value to society of political and economic freedoms.

Despite the continuing crackdown on students and entrepreneurs by Chinese conservatives, led by Deng and Premier Li Peng, the Chamber president remains confident the reform movement is inexorable. "The Chinese still are very receptive to American business. The government ultimately will be dragged kicking and screaming" back on the road toward free enterprise, Lesher said following a recent meeting in Washington with leaders of the Chamber's counterpart in China.

Lesher notes that pro-democracy activities of the Chamber are among the organization's broad reasons for existence. The Chamber's mission statement reads, in part, that among its "principal purposes" is fostering "enlightened understanding and effective application of the economic and political principles essential to the continued growth of freedom and opportunity."

Effecting reforms in countries of the developing world "is of enormous importance to U.S. business people, and that's not restricted to Socialist and Communist nations of the Eastern bloc," explains Archey, who is Chamber vice president/international in addition to his position in CIPE.

"It is clearly in the interests of American businesses to support the process of economic and political reforms around the world so that the affected countries can become healthy entities interested in buying products and attracting investments from the U.S.," he says.

The Chamber assistance program for Eastern Europe complements other international relief efforts there. While Hungary and Poland are slated to receive hundreds of millions of dollars in food, debt relief, and economic-development assistance from individual developed nations and multilateral agencies such as the International Monetary Fund and the World Bank, key members of both major U.S. political parties believe this aid will not be enough.

"While government-to-government and multilateral initiatives are vital to improving the economic climate in Hungary, only the private sector can do the job of actually creating the economic growth that is needed" to improve living standards, Robert A. Mosbacher, U.S. secretary of commerce, said recently. Mosbacher was in Budapest to "begin building a private-sector partnership" between U.S. and Hungarian entrepreneurs along the lines drawn by the Chamber.

Sam Nunn, D-Ga., chairman of the Senate Armed Services Committee, recently told business people at a meeting in the Chamber: "In the economic, political, and ideological sense, communism and central economic planning have lost in Eastern Europe, but democracy and the free-market system have not yet won. ... The bold undertakings in Poland and elsewhere, while heartening, are not irreversible—particularly if the West fails to respond promptly, substantially, and constructively.

"Our most meaningful long-term assistance should be in the form of intellectual capital, Western know-how, management training, economic development, and the free exchange of ideas and people," Nunn concluded.

CIPE's Sullivan is in complete accord with Nunn's assessment. Says Sullivan: "When it comes to establishing free-market economies, the Socialist countries don't have a clue." NB

CIPE's Global Impact

The Center for International Private Enterprise (CIPE), a 5-year-old affiliate of the U.S. Chamber of Commerce, supports organizations in developing nations seeking to promote democracy and private enterprise as a basis for prosperity and individual freedom.

PHOTO: T. MICHAEL KEZA

In New York: *U.S. Chamber President Richard L. Lesher; Chairman David A. Morse of the New York Society for International Affairs; Argentine President Carlos Saul Menem.*

CIPE is funded by Congress under the National Endowment for Democracy.

Recent grants to pro-enterprise organizations in Hungary and Poland were CIPE's first in Eastern Europe, but they will not be its last, says William T. Archey, executive director of CIPE. Archey says a potential grantee in Czechoslovakia is "on the radar screen."

Though CIPE is a newcomer in the Warsaw Pact nations, it is an old hand at administering grants elsewhere in the world. Since 1984, the center has made more than 100 grants to organizations in about three dozen nations in Central and South America, Africa, and South and East Asia.

CIPE has many success stories to tell, says Program Coordinator John D. Sullivan, but one of its most gratifying is Argentina. CIPE has been more active there than in any other nation, supporting organizations with varied agendas.

Most recently, CIPE has supported activities of two Argentine think tanks, the Institute of Economic Studies of Latin America and Argentine Reality (the Spanish acronym is IEERAL) and the Latin American Economic Research Foundation. These groups analyze the impact on business and the economy of laws and pending legislation and regulations. The newly elected Argentine government of President Carlos Saul Menem is relying heavily on these organizations as he strives to solve his nation's chronic debt and inflation problems through a series of free-enterprise reforms, says Sullivan. Menem has named the founder of the IEERAL, Domingo Cavallo, minister of foreign affairs and chief debt negotiator, Sullivan points out.

The American business community will continue helping Argentina revitalize its economy, U.S. Chamber President Richard L. Lesher recently pledged to Menem, who was in New York to outline his economic plan to U.S. business and labor leaders.

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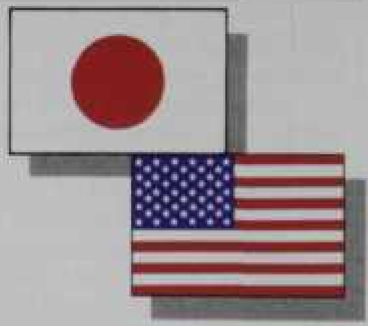

Japan's general trading companies have established the Export Promotion Office for U.S. Manufactured Goods to advise American companies interested in trading with Japan and other foreign countries.

The companies' global network of trading experts forms the base of the export assistance. The export services are available through 105 offices in 19 U.S. cities (see listing below).

Those offices are linked individually by a computer system that can give manufacturers and exporters information on markets, financing, laws, regulations, exchange rates, and other factors with a bearing on trading decisions.

American companies wishing to determine whether the services of the Export Promotion Office for U.S. Manufactured Goods might be helpful to them can call any of these offices. Offices denoted by an asterisk handle only limited items.

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BENEFITS

Unemployment: Cutting The Costs

Although not contesting a former employee's claim for unemployment benefits may seem harmless, it can prove costly in the long run.

By Roger Thompson

Many employers pay too much for unemployment insurance because they pay too little attention to the only payroll tax over which they have any real control.

By some estimates, 20 percent of those who receive unemployment benefits are ineligible for those benefits because they have quit voluntarily or have been fired for just cause. Yet employers often don't challenge unfounded unemployment claims or can't substantiate their arguments for denial of benefits, and this can lead to higher costs later on for unemployment insurance.

"The problem for the most part is that the employer isn't prepared to contest a claim," says Warren Blue, a senior vice president with the benefits consulting firm of R.E. Harrington Inc. in Columbus, Ohio. "When in doubt, the claimant wins. That's the way the laws have been interpreted."

While not contesting a former employee's claim for unemployment benefits may seem harmless enough at the time, the repercussions can be serious. Even one mishandled claim can push an employer into a higher unemployment-insurance tax bracket; the tax rate is based on claims experience.

On average, employers nationwide paid $224 per employee in federal and state unemployment-insurance taxes in 1988. But in most states, the maximum rates are two to five times the average, which gives employers plenty of incentive to contest unfounded claims.

For example, in 1988 the maximum total tax per employee in Michigan was $1,006, compared with a minimum of $151. Accordingly, a company with 50 employees would pay a maximum of $50,300 or a minimum of $7,550 in unemployment-insurance taxes—a difference of $42,750. "Many small companies don't pay a lot of attention to the fact that the unemployment-compensation taxes are experience-rated," says Lisa Sprague, manager of pension and employee-benefits issues for the U.S. Chamber of Commerce. "But paying attention to procedures can result in improved experience and have a significant impact on costs."

The most important procedure is to document employee conduct that leads to dismissal. (See the sidebar on Page 73.) A paper trail of spoken warnings, written warnings, suspensions, or other disciplinary measures must be available to justify an employer's actions. "Whether or not you were 'right' in terminating an employee is not the issue. The unemployment department wants to know what you have in writing," says Jeanne Armintrout, president of Jeanne Armintrout & Asso-

Unemployment Benefits: How The States Compare

STATE	AVERAGE TAX PER EMPLOYEE	AVERAGE BENEFIT*	CLAIMS APPROVED (%)
Alabama	$184.00	$1,052.12	78.0%
Alaska	984.40	2,517.51	86.1
Arizona	154.00	1,649.28	61.6
Arkansas	243.50	1,557.25	70.5
California	217.00	1,844.25	65.4
Colorado	266.00	2,109.05	80.9
Connecticut	190.90	1,915.88	80.1
Delaware	285.50	2,113.76	77.3
District of Columbia	216.00	3,512.76	64.3
Florida	119.00	1,851.08	63.7
Georgia	168.50	1,181.69	69.3
Hawaii	160.40	2,348.92	73.8
Idaho	542.00	1,705.86	85.1
Illinois	344.00	2,656.91	68.7
Indiana	154.00	1,180.60	56.9
Iowa	375.00	1,963.64	84.8
Kansas	256.00	2,349.14	76.2
Kentucky	264.00	1,476.99	72.9
Louisiana	370.50	2,114.22	64.2
Maine	245.00	1,538.05	64.6
Maryland	161.00	2,093.62	67.8
Massachusetts	203.00	2,869.55	85.6
Michigan	455.00	2,862.24	59.7
Minnesota	330.80	2,615.84	91.1
Mississippi	140.00	1,264.69	65.2
Missouri	175.00	1,565.76	67.9
Montana	295.40	1,783.87	78.3
Nebraska	161.00	1,430.77	79.6
Nevada	237.50	1,867.82	75.2
New Hampshire	105.00	676.23	77.7
New Jersey	308.00	2,653.50	74.3
New Mexico	250.00	2,100.94	71.1
New York	252.00	2,438.09	80.3
North Carolina	146.90	1,071.17	57.7
North Dakota	397.00	1,712.07	80.2
Ohio	328.00	2,205.94	76.3
Oklahoma	301.70	1,937.85	64.5
Oregon	476.00	1,988.53	78.4
Pennsylvania	392.00	2,434.81	82.4
Rhode Island	416.00	1,947.12	78.1
South Carolina	189.00	1,089.50	53.1
South Dakota	112.00	1,483.55	67.0
Tennessee	168.00	1,218.22	65.9
Texas	352.00	2,486.88	66.2
Utah	254.00	2,038.15	82.6
Vermont	320.00	1,608.16	83.3
Virginia	133.00	1,156.63	68.8
Washington	629.80	2,235.59	72.5
West Virginia	384.00	2,177.72	86.0
Wisconsin	434.00	1,881.55	83.9
Wyoming	392.60	2,549.71	58.5

* As of June 30, 1988

SOURCE: U.S. Department of Labor, prepared by Laurdan Associates Inc., Potomac, Md.

ciates, a Walnut Creek, Calif., consulting firm with expertise in employee benefits.

Careful documentation also reduces an employer's chances of being sued for wrongful discharge or discrimination. Both types of litigation have increased sharply in recent years.

"Claimants can use an unemployment-insurance hearing as a fact-finding expedition to see how strong the employer's [discharge] case is and then initiate proceedings in civil court," says Ronald Adler, president of Laurdan Associates Inc., a consulting firm in Potomac, Md. "Over the past several years, more and more claimants have been pursuing this strategy."

In some states, denial of unemployment benefits makes it far more difficult, if not impossible, for a former employee to pursue an employer in court—all the more reason to take unemployment-compensation claims seriously.

The nation's unemployment-insurance system originated in the Great Depression with the Federal Unemployment Tax Act (FUTA). The act created a federal-and-state system to provide partial wage replacement for the unemployed. A flat federal tax, currently set at $56 per employee, is used primarily to administer the individual state unemployment-insurance programs.

Questions To Consider

Unemployment-insurance laws differ from state to state, but unemployment offices ask the same types of questions of employers who challenge claims for benefits. Following are typical questions, drawn from the *Guide To Effective Documentation*, by Jeanne Armintrout & Associates, a Walnut Creek, Calif., consulting firm:

1. Was the employee aware of the policy that was violated?
2. How was the employee made aware of this policy?
3. Was the employee given any warnings? What were the dates of the warnings? Were the warnings spoken or written? What was said in the warnings?
4. Did the warnings contain a statement indicating that further violations could result in termination?
5. What was the final incident that led to termination? What was the date, and what reason—if any—did the employee give for violating the policy?
6. Were there any witnesses to the incident?

Congress left it up to the states to levy taxes to pay unemployment benefits, which typically last 26 weeks. Each state sets its own minimum and maximum tax rates. Under federal law, the maximum rate must be at least 5.4 percent. The tax rate is applied to the federally mandated minimum-wage base of $7,000 per employee, but some states exceed the federal minimum.

Workers are entitled to receive unemployment compensation if they lose their jobs through no fault of their own, such as a layoff or inability to perform required tasks. "If you fire me because I don't meet your performance standards, I can collect," explains Armintrout. She estimates that layoffs and inadequate performance account for more than half of all unemployment-compensation claims.

The law denies compensation to workers who quit voluntarily without good cause or who engage in willful misconduct. Nonetheless, about 20 percent of all claims are filed by people who fall in these two categories, says Armintrout. This is where careful documentation and claims management can mean big savings for employers.

When a former employee files a benefit claim, the employer is notified and required to provide information on the claimant's separation from employment. The employer's response is critical.

"Just because an employer says he fired someone because that person was a bum isn't good enough," says Adler. "The employer has to prove it. Most small employers are surprised at what it takes to do this."

At the very least, it takes documentation of specific instances of misconduct. The burden of proof is on the employer.

Since ignorance of an employer's work rules typically is an acceptable defense at unemployment-compensation hearings, employers should issue policies and procedures in writing and should require each new employee to sign a copy of such rules on the first day of the job.

Actions that may lead to dismissal include insubordination, unacceptable job performance, excessive absenteeism, failure to give truthful information on company records, and possessing alcoholic beverages or illegal drugs on company property.

Employers who have no written procedures or who fail to document employee misconduct have much more difficulty challenging unjustified unemployment-compensation claims, says consultant Blue. He adds that many firms now are surely paying the price—in higher unemployment-insurance costs—because they couldn't challenge such claims. NB

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I certify that the statements made by me above are correct and complete.

Leonard I. Ripps
Business Manager

LESSONS OF LEADERSHIP

When It's Time To Go

Walter Smiley spent 20 years building Systematics into a $200-million company. Then he walked away from it.

By Michael Barrier

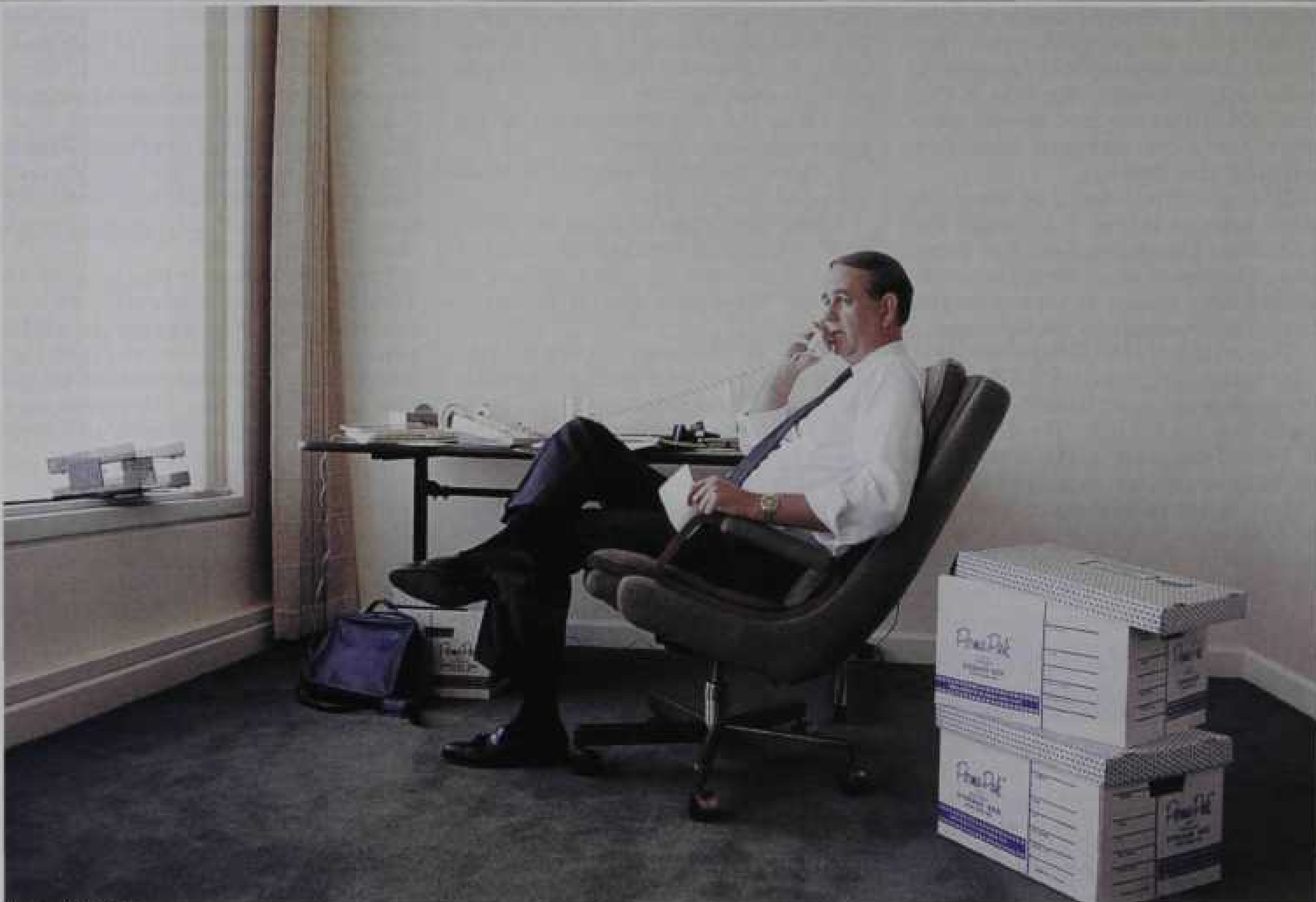


PHOTO: © MATT BRADLEY

His new office *in Little Rock may not be plush, but Walter Smiley thinks it's the right place for him to be.*

The sign says "Smiley Investment Company," but only a secretary is behind the door. Walter V. Smiley is across the hall, in a small office that is bare except for a desk, a conference table, a few chairs, and some family photos. The office, on the 16th floor of a bank building in Little Rock, Ark., commands a northern view toward the Arkansas River, but it's not where you would expect to find a man who has been guiding the fortunes of a $200-million company with 3,000 employees.

A little over a year ago, though, Walter Smiley was doing just that. He still would be, except for one man's decision: his own.

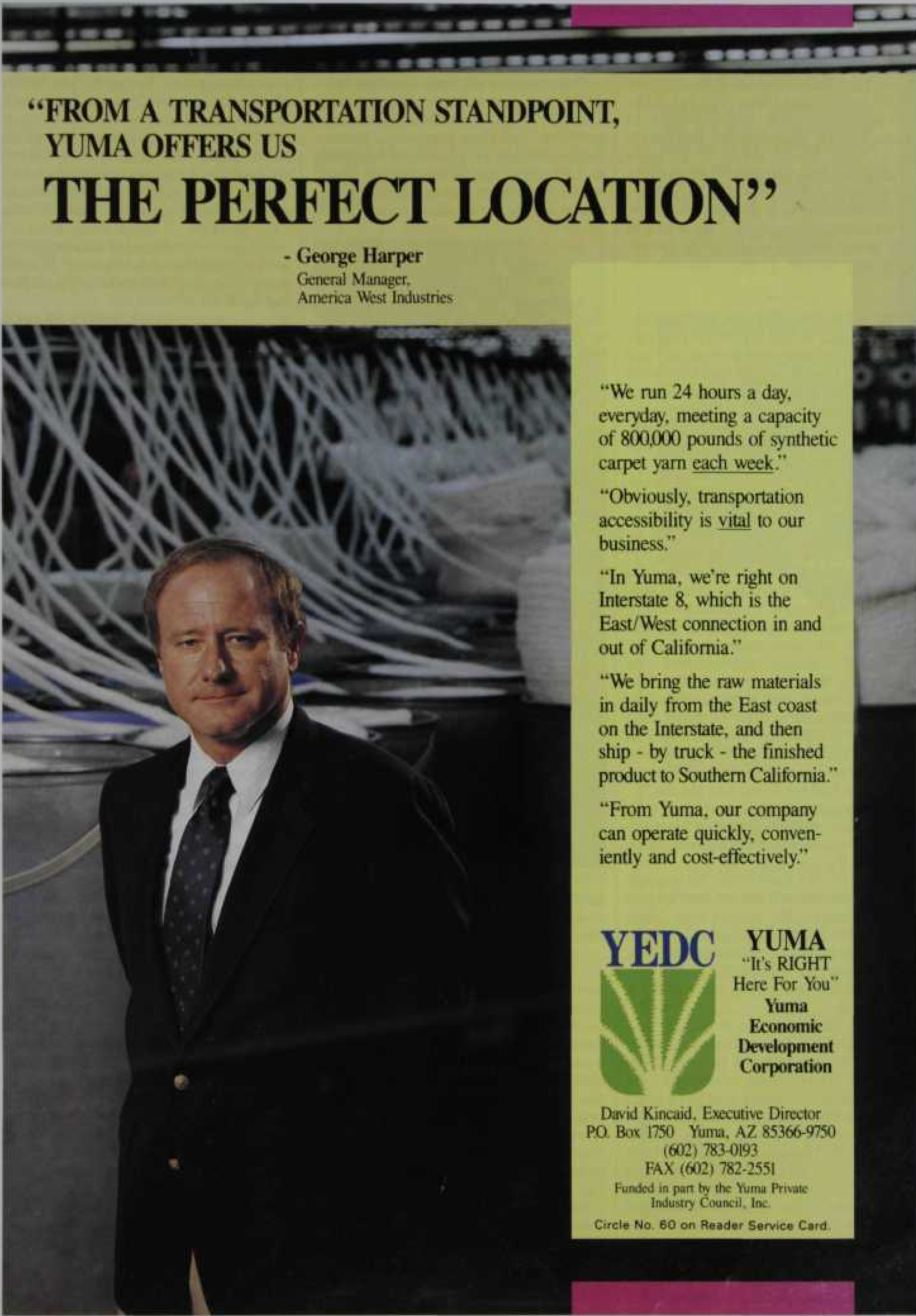
Smiley founded and for 20 years headed Systematics Inc., a company that has won glamorous success in an unglamorous field—computer services for financial institutions.

In recent years, more and more banks and thrifts have turned to outsiders for help in running their data-processing departments. Competition among banks has grown so stiff, and computer technology so complex, that many banks no longer trust themselves to keep up if they rely on in-house expertise. For example, Manufacturers Hanover, the nation's seventh-largest bank, conducted a 12-month contest to find the software supplier that could best help it manage its $65 billion in assets. Earlier this year, the bank announced the winner: Systematics.

Systematics' pretax income in fiscal 1989 was more than $30 million, on operating revenues of almost $207 million. Its revenues are growing at a clip that will make it a $500-million company by the mid-1990s, but it has just begun to tap its market. Systematics still serves only about 200 of the 18,000 financial institutions in the U.S.—and now it is selling overseas, too, to large banks in Singapore and other places. Many competitors have disappeared, eaten up by problems Systematics mastered years ago. By every measure that can be applied to its industry, Systematics either leads or is very close to the top.

Walter Smiley was the architect of that success, and John E. Steuri, the former IBM executive who now heads Systematics, envisions no major changes from the way Smiley ran the company:

"We may do some tuning—we may be more aggressive in marketing, we may get more customer-driven. But I'm not about to change any of the basics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that have made this company strong."

Many companies have suffered because their founders hung around too long, proving that they could not make the transition from entrepreneur to manager, but Systematics was never one of them. Smiley found his job more comfortable the bigger his company got. Says Cato D. Carpenter, an analyst with Alex. Brown & Sons, a Baltimore investment-banking firm: "He was not only smart enough to recognize the opportunity, he did a great job executing."

Smiley remains on Systematics' board, he still owns several million dollars' worth of stock, and he has an 8-year contract as a consultant to the company that will pay him $300,000 a year (the same as Steuri's base salary). But since last year, he has relentlessly pruned his day-to-day ties with Systematics.

Steuri joined the company as president and chief executive officer in October 1988. "When I first arrived," Steuri says, "Walter was here some, and he was gone some, but he was really trying to get people to come to me and let me be the CEO." Last May, Steuri continues, "the board concluded—and I think it was really Walter's conclusion—that we were ready to take the next step." Smiley surrendered the chairman's title, too, and for the first time in 21 years was no longer an officer of Systematics. Now he visits Systematics' campuslike headquarters in western Little Rock perhaps once a month. To visit more often, he says, "would be bad for John, bad for me."

Smiley was a stellar performer who chose to leave the stage when his audience was still calling for encores. Why did he do it?

Sitting in that bare office, he is quick with his answer: "Part of it was just getting bored." No matter how large and successful the company, he says, "there's a basic set of things" that a CEO always has to do, and "I felt I was getting bored and maybe stale as a result of that."

But he also points to a reason that goes beyond his own personal satisfaction, to concern about the future of Systematics. "As you build a company," he says, "one of the things you have to do is continually resist philosophies that you believe are wrong." He recalls "very vividly" having to decide, early in Systematics' life, whether to put $90,000 into marketing or into software development. "The classical wisdom of everybody in the industry was to pour that money into marketing, go get market share, then develop software. I can remember our management team sitting down and agonizing over that, and two of us felt strongly that the money should go into development."

The money went into development—which was, as it turned out, unquestionably the right decision. Systematics survived, and then prospered, because it directed its energies toward meeting its customers' needs, not toward rounding up customers that it might or might not be able to serve. However obviously correct such decisions may appear in hindsight, it took courage and foresight to make them in Systematics' early days. Jon E.M. Jacoby, a member of Systematics' board of directors since 1968, recalls that one competitor took the opposite tack—and its revenues rose to $40 million while Systematics' were rising to only $9 million. "But then it went to $9 million while we were going to $40 million. So I think our result was better."

Smiley deserves the credit for that result, Jacoby says: "Walter realized that you'd better build this thing one brick at a time, and it had better be solid."

But Smiley himself saw a crack in the solid foundation he laid. "As you make those philosophical kinds of decisions year after year," he says, "you probably get to the point that you don't really look clearly at alternatives. You almost get defensive; you almost get to the point where you say, 'Wait a minute, we've done it this way forever and it's worked, don't talk to me about changing it.' " The only cure he sees is for the CEO to leave.

"This is something I've always believed," Smiley continues. "It's not something that reached me in a blinding flash six months ago. I always said that about age 50, after 15 or 20 years, I want to go do something else. I think everybody who runs a company knows that's the right thing to do. The problem is just doing it."

Smiley was born 51 years ago in Hope, a small town in southwestern Arkansas, and graduated from the University of Arkansas with an MBA. Then he went to work for IBM. "I think that's where I got the first glimmer there might be an opportunity," he says, "because so many of my customers didn't know what to do with the hardware that we were selling them."

He wanted to live in Arkansas, so he took a job with a bank in Fayetteville. "There," he continues, "it became clear how difficult it was going to be for one bank, standing alone, to do data processing properly," because of the necessary investment in software. Big banks could afford that investment; small banks already farmed out their data processing to bigger banks. But many medium-sized banks, those with a few hundred million to a few billion dollars in assets, were caught in a squeeze.

Smiley and some other bank executives tried to talk their bosses into joint development of software, but the banks were too suspicious of one another. "After struggling with that for a year or so," he says, "I decided to see if I could get some money and start a company."

For backing, Smiley turned to Stephens Inc., the Little Rock firm that is the largest investment-banking house off Wall Street. Stephens put $400,000 into Systematics, in return for 80 percent of the new company's equity. Stephens' role in Systematics differed sharply, however, from the norm for such investors.

"In this business," Smiley says, "it's real easy to get yourself in a position where you've got to sell tomorrow for the sake of today. The Stephens people were just the opposite. They always encouraged us to prepare for the long term, to do it right."

Systematics did go public, but not un-

PHOTO: © MATT BRADLEY

Smiley once ran *Systematics from this campuslike headquarters complex in western Little Rock.*

til it had been in business for a dozen years, and Stephens has never cashed out of Systematics. Jackson T. Stephens, chairman of Stephens Inc., sits on Systematics' board and still controls about half the company's stock. Says Jacoby, the Systematics director, who is executive vice president of Stephens Inc.: "We're basically long-term investors. The best investments are the ones you never have to sell."

Smiley himself never owned more than 10 percent of the company. He was, he says, more like "a hired manager" than an owner, but "I never thought about that. I never, ever thought about making a lot of money." Rather than "money" or "success" or any comparable word, it is "fun" that turns up frequently when he talks about his business career—"It's really fun to watch organizations work, to watch them come together"—and for him, the fun came from building a strong, smoothly operating company that met a real need.

With that kind of attitude—and with Stephens' support—Smiley could resist temptations of the kind that have undermined other promising companies. For one thing, Systematics has always defined its business very narrowly, concentrating on services to financial institutions, and has never expanded into related fields such as insurance and health care.

Initially, Systematics offered only facilities management—that is, it would, under contract, run a bank's data-processing department for it, typically on the bank's premises. Only after carefully exploring the implications did it begin licensing its software to banks like Manufacturers Hanover, which for one reason or another were not potential customers for what is still Systematics' principal service.

Smiley adopted the same kind of keep-your-eye-on-the-ball approach to Systematics' software. Says Carpenter, the analyst: "Systematics is really not in the business of pioneering technology; they are in the business of applying technology in the most efficient and economical way, to the customer's cost benefit."

In particular, Systematics has limited its use of relational databases, relying for the most part on a system that requires much less computing power but still provides the only "real-time" information a bank normally needs: whether a customer has a balance large enough to cover a check.

Smiley wanted Systematics' employees to be as clear about their own roles as they were about the company's. "I think management is so simple," he says. "You be honest, you figure what you're going to do, you tell everybody what you're going to do, and you all go do it."

To keep things simple, Smiley tried to wipe out as many distinctions as possible among employees. Every office in Systematics' headquarters is the same size—10 feet by 12 feet—and the only reserved parking places are those for visitors and the handicapped. "I think it's unfair for me to be able to park close to the building when it's raining, when somebody else has to walk a quarter of a mile," Smiley says. "I think the people who get there early ought to get close to the building."

Management, Smiley says, "is almost a subservient job, and if you don't view it that way, I think you wind up making big mistakes." But when a manager understands his proper role, "leaving a company is not a problem at all."

Ideally, he says, there should be no distinctions among employees, "other than in compensation. That's simple—it's easy to explain. It's when you start doing all these other things that people begin to become confused about fairness issues."

Management, Smiley says, "is almost a subservient job, and if you don't view it that way, I think you wind up making big mistakes." But, he adds, when a manager understands his proper role, "leaving a company is not a problem at all. To say 'I've done my share' is different from saying 'I'm giving up something.'"

Now that Smiley has done his share at Systematics, he has invested in some promising start-ups, but otherwise he is going to go slow for a while, until his two children are out of high school. Then he may start another company of his own, perhaps with the financial backing of Stephens Inc., which is ready, Jacoby says, to back Smiley in "anything he wants, absolutely."

Smiley looks forward to getting back into the day-to-day management of a company:

"I think that's really what I'm good at. I like building organizations; I think it's really fun." NB

MARKETING

Selling On A Shoestring

By Nancy Croft Baker

When an unemployed Sophia Collier concocted Soho Soda in her kitchen one blistering August day in 1977, she knew the unique product would launch a business.

She also knew that in order to sell her natural soda, she had to learn about marketing—beginning with the basics.

Although she had to do her marketing on a bare-bones budget for years, Collier's American Natural Beverage Co. grew into a multimillion-dollar enterprise.

By defining her market and working with small convenience-store chains, Collier carved a niche in the gourmet-soft-drink industry that would attract takeover offers from the likes of the Seagram beverage company, which recently purchased Collier's firm.

Collier's successful strategy came about more by necessity than by design.

She had no money to put someone on the payroll to distribute her product, and she couldn't negotiate favorable contracts with other distributors, she explains, because she didn't really understand the product herself. So she delivered bottles of her soda from the back of her Jeep—on a budget so tight that she couldn't park at a meter unless it had time remaining on it. And by becoming her own distributor, she learned more about her product than she could have discovered if she had someone else doing the job, she says.

"I recommend for anybody who's going to start a business to sell the product yourself. Get to know your product, understand it," she says. "You hear customers' objections, and it's a way to have personal market research right from the customer."

To survive and expand in today's competitive marketplace, businesses large and small must constantly keep their names before their target markets. Unfortunately, when the economy tightens, marketing is typically one of the first business expenses to be trimmed. It is when times are tight, however, that savvy marketing is most critical.

Collier and dozens of other entrepreneurs, small-business owners, and association marketing managers share their secrets to marketing success on skinny budgets in *The Frugal Marketer: Smart Tips for Stretching Your Budget* (AMACOM, $15.95). The book was written by J. Donald Weinrauch, a professor of marketing at Tennessee Technological University, in Cookville, and by this author.

Following are some examples—adapted from the book—of how you can compete with big competitors without spending big bucks on marketing.

Nancy Croft Baker is a communications executive for a Washington-based economic-policy organization.

Setting The Stage: Market Research

Before considering whether to hire an expensive marketing consultant to develop a strategy, a business owner should take a good look at the resources already at hand. Inventory records, customers, employees, suppliers, and competitors are wonderful gauges for demographic trends, and they are good sources of feedback on products and service.

Teach employees to be good listeners when customers make a purchase. Encourage employees to ask customers if they have suggestions for improvement, if they would like to see the business offer particular products not already offered, or why they do—or don't—frequent the business.

Some suppliers and vendors offer demographic information to preferred customers as a special service. Subscribing to a news-clipping service to track media coverage on competitors also gives a perspective of how a business is positioned in the marketplace.

Contact a local Small Business Development Institute or Small Business Development Center for free or nominally priced market-research assistance. Small Business Institutes, affiliated with the Small Business Administration, are housed at universities and colleges and provide intensive management assistance by teams of qualified college students in business disciplines. Small Business Development Centers are staffed by professional business volunteers and typically are located in offices of the Service Corps of Retired Executives (SCORE), in chambers of commerce, or in community centers. All are listed in local phone directories.

Cartoon posters *drew customers for Doug Mellinger's business of storing college students' belongings.*

PHOTO: © TOM SOBOLIK—BLACK STAR

Entrepreneurs, small-business owners, and others share secrets of marketing on skinny budgets, showing how you can compete in a big way without spending big bucks.

Always Say Thank You After A Sale

A free yet often-overlooked marketing technique, says Phyllis Miller, a Los Angeles marketing consultant, is thanking the customer after a purchase. "I watched a salesman take money for an entire computer system and not say thank you or escort the customer graciously to the door," she says. If you want to encourage repeat business, reassure customers that they have made a good choice by shopping at your business, and let them know you appreciate their patronage. "It doesn't cost you a penny, and it can increase sales dramatically, since so few marketers do this," says Miller. This personal approach will stand out in a customer's mind.

Make Your Advertising Pay For Itself

When a Midwestern video store wanted to distribute a coupon book within the community, it went to other area businesses for funding. The businesses—even competitors—paid the video store an advertising fee for including their coupons. The video store used the advertising funds to produce a snappy coupon booklet imprinted with its logo. The booklet also was designed to hang conveniently on a doorknob as a reminder to the customer that it should be taken along on shopping trips. Participating stores received inexpensive advertising, and the video store paid no production expenses. Other businesses have used the same technique with calendars and other items used frequently by customers.

Value-Added Freebies

A small Northeastern corporate-employment agency offers a lifetime guarantee of providing free resume service to its current and former clients. Although this may seem like an expensive and time-consuming practice, the agency generates a constant stream of viable candidates to place. The agency's principals say that producing a resume is a minor expense compared with the thousands of dollars of revenue that the agency receives when it makes an executive placement. As clients gain status and experience, the types of jobs they seek offer higher compensation, resulting in higher fees for the agency.

The free-resume service also helps attract first-time clients who like the idea of receiving some assistance on future resumes. By offering this service, the agency not only cultivates goodwill but also finds it less expensive than paying for advertising.

PHOTO © DEAN ABRAMSON

Concocted in a kitchen *and sold to a corporate giant, Soho Soda was a shoestring success for entrepreneur Sophia Collier.*

Hold For The Competition

Don't leave phone customers on extended hold if your telephone is programmed to play a local radio station. A customer was placing an order with her local butcher when he was called away. While waiting for the butcher to return to the phone, the woman heard a commercial that advertised outstanding meat selections at a major supermarket. The woman decided to patronize the competition rather than wait on hold.

Mail-Order Catalogs: Copy That Sells

Selling your products or services by mail can help you expand into new markets quickly. It also can help cut overhead if you don't have to operate a retail outlet. Many companies have been launched on the success of mail-order catalogs operated out of entrepreneurs' homes.

Starting a mail-order operation is not a simple task, however. Defining an audience, figuring shipping costs, and assessing demand are just a few of the concerns to be addressed.

Start collecting catalogs that you find particularly effective or eye-catching to get an idea of how you would like yours to look. Give your catalog a theme—much like the theme or philosophy your company projects to its customers. Having a single theme helps potential customers associate the catalog with your business.

The most important feature about a catalog is the copy. To write copy that generates sales leads, promise a benefit in the headline or first paragraph, and elaborate on your most important benefit in the text. Give readers information that helps them solve a problem or do something better, faster, or cheaper.

Keep phrases and paragraphs short. Use eye-catching typefaces to emphasize important ideas or phrases, and stress your big selling point several times. If you have an 800 phone number, advertise it frequently throughout the catalog. Include helpful information, such as short, how-to articles by company experts on making the most of your product or service.

Leave space on the order form for people to write in names and addresses of other potential customers, and include extra order forms that customers can give to friends or colleagues. Send order forms for additional parts or complimentary products with the shipment. Send a personal cover letter with the

catalog. Even if it is a form letter, it has a more personal appeal than a catalog alone. Offer an extra incentive to order, such as a 10-percent discount for customers who enclose full payment or for those who order in large quantities.

Don't expect one or two catalogs to produce instant results, however. Many potential customers save a catalog and order from it when a need arises.

When Experts Talk, Potential Customers Listen

If you are an expert in a certain field, chances are that many civic and professional organizations would gladly give you an opportunity to speak at their meetings, conferences, or conventions. You don't have to travel far to find a captive audience; your community is filled with opportunities to espouse your professional wisdom. Women's groups, Rotary clubs, book clubs, garden clubs, adult-education classes, and many others welcome guest speakers.

Bob Wilson, business manager of the Audubon Society of Portland, Ore., frequently invites authors and experts to give lectures. For example, Hugh Danks, author of *The Bug Book* and *Bug Bottle* (Workman Publishing Co., 1987), presented a free slide show and lecture to area children, then took them on a bug hunt to find some of the creatures he had just talked about. The event drew 170 children, four television stations, a reporter from a major Portland newspaper, and a few radio commentators. The production was a hit, and the society sold its entire stock of 85 of Danks' books. The lecture, says Wilson, also helped sell a lot of other books in the society's bookstore.

Another effective and inexpensive way to draw clients or customers is to conduct a seminar, targeting associations whose members could benefit from your product or service. For instance, William Delphos, who owns a Washington, D.C., marketing firm that helps small companies compete internationally, prepared a seminar and slide presentation for less than $1,000. He contacts associations in key geographic areas where he wants to attract business. He requests that the association schedule the event and send promotional literature to its members.

Delphos doesn't use this strategy to make money; he uses it to build credibility for his small company. Whenever "you're a featured speaker," he says, "you walk in immediately with a credibility factor. You get a real word-of-mouth selling capability by doing this. There may be only 35 members in an association, but it's amazing the power that as few as 10 clients from an association can have when they turn into reference-selling multipliers."

Restage Your Old Products

What do you do with slow-moving, excess, or discontinued inventory? Give it a make-over or find a new distribution channel for it. "When a company has excess inventory, there is no incentive for sales reps to solve the problem," says Marc Goldfarb, a former Los Angeles stockbroker who specializes in finding new uses for old products. "Salesmen would rather push next season's lines because that's where the commissions are." Manufacturers and retailers, he says, prefer to sell off the excess at a discount rather than chalk up a loss. That's where Goldfarb comes in.

Goldfarb once bought a large inventory of white denim Levi jeans at $5 a pair. He had the labels removed and the jeans tie-dyed. He applied new labels imprinted with university logos or mascots, and he sold the jeans to university bookstores for $10. The bookstores, in turn, sold them for $30 a pair. Any company can follow Goldfarb's example to find new uses or new distribution channels for familiar products.

Just because you have a ho-hum marketing budget doesn't mean you have to settle for ho-hum sales. "If you don't have money, that's not an obstacle," says American Natural Beverage's Sophia Collier. "There's always a way to do something [spectacular], and money creates the ability to amplify your ideas. But the lack of money is not an absolute block."

A little money certainly went a long way for 24-year-old entrepreneur Doug Mellinger a few years ago when he advertised his summer-storage business at Syracuse University. Gold Summer Storage, which later expanded to 16 upstate New York campuses and was one of six businesses he has founded, was designed by and for students. Deciding that newspaper ads "wouldn't effectively reach our target market," Mellinger says, he drew students' attention instead with cartoon posters that he placed around campus weekly.

"Each comic had tear strips at the bottom with the company's phone number," he explains. "It was highly successful, and we paid only about $20 for 1,000 copies of the cartoon ad." One summer at Syracuse, his firm grossed $16,000. NB

To order reprints of this article, see Page 88.

What your heart looks like during open heart surgery.

Open heart surgery requires a highly skilled and well-trained operating team. And, for a few crucial hours, it also requires something else: a substitute for your heart.

The Sarns® 9000 perfusion system from 3M is just such a machine. It replaces the heart's functions using state of the art technologies, helping a surgical team to perform a delicate, life-sustaining operation with confidence.

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COMBATING DRUGS

Business Moves Against Drugs

Vulnerability to the effects of substance abuse by workers has led thousands of companies to develop programs for drug-free workplaces.

By Donald C. Bacon

The nation's drug problem hit home for William A. Stone not long ago when he found some marijuana cigarette butts in the parking lot of his 40-employee business in Louisville, Ky.

"We made such a big issue of it that now everybody here knows it is 'adios' if you get caught with drugs," says Stone, president and owner of Louisville Plate Glass Co. "We put it officially in our work rules: Anybody caught with alcohol, drugs, or any mind-altering substance is absolutely dismissed." Stone is now "thinking about initiating" a formal drug program, including "a drug test for every hire."

Employers say it is often a single incident that helps them see for the first time how vulnerable their businesses are to the plague of substance abuse. Such awakening has led thousands of companies since the mid-1980s to develop their own policies and programs for a drug-free workplace.

"It's nothing short of phenomenal the extent to which employers have gotten religion on the drug issue in the last five years," says Mark A. de Bernardo, special counsel for domestic policy of the U.S. Chamber of Commerce and executive director of the Institute for a Drug-Free Workplace, a coalition of corporations that seeks to shape public debate over drug legislation.

The importance of business's role in the overall battle against drugs was underscored by President Bush in September. In announcing his anti-drug strategy, the president coupled a call for a drug-free workplace with a blunt warning to federal contractors to implement "tough but fair" drug policies for their employees or face losing their federal contracts.

"Businesses and employers must make it clear that drug use and employment are incompatible," Bush added in his report to Congress.

Observes de Bernardo: "Employers have a legitimate role in the war on drugs, not only as good corporate citizens of their communities but also because drug abuse affects their bottom line. They realize that the cost, quality, and amount of the goods and services they produce are directly related to whether or not they have drug abusers in the workplace."

Experts estimate that drug and alcohol abuse together cost the business community as much as $100 billion a year through increased absenteeism, added health-care costs, and accident rates that are as much as 10 times higher for abusers than for nonabusers.

Even so, and despite a wealth of evidence on the pervasiveness of drugs, surveys show that some employers still find it hard to accept the idea that substance abuse could thrive in their own businesses. In one recent survey of 265 corporate chief executive officers, 88 percent said they found "substance abuse to be a very significant problem in the nation today." But in the same survey, only 22 percent of the CEOs said they believe the misuse of drugs and alcohol is very significant in their own organizations.

Anthony J. Gajda, a principal with the employee-benefits consulting firm of William M. Meidinger Hansen Inc., which conducted the survey, attributes the apparent discrepancy in part to a reluctance in many businesses to confront the drug issue. "We think there is denial among organizations," Gajda says. "Nobody wants to admit it's a problem in their own company." Nonetheless, he adds, "I think we're beginning to see a real improvement in perceptions of the drug problem among employers and workers in this country. Employers are beginning to take a more aggressive attitude."

So far, most private-sector activity against drugs in the workplace has been led by the large corporations. Nearly all of the nation's 500 largest corporations have adopted some type of drug program.

PHOTO: © UNIPHOTO

Deciding if drug tests *for employees belong in a firm's anti-drug program can be hard for employers because of concerns about worker privacy and morale.*

Midsized and smaller businesses have responded more slowly, perhaps partly for the reasons Gajda cites but also because they often lack the incentives and the resources to implement full-scale anti-drug programs. Programs can be expensive and time-consuming. And they must be skillfully shaped and administered to be effective while protecting employee concerns, particularly where testing is involved.

Private-sector drug policies vary widely. They range from comprehensive programs—including educational campaigns, pre-employment and employee testing, and employee assistance—down to concise formal state-

ments of company policy regarding drugs in the workplace. Such statements, added to company work rules and communicated to all employees, in their simplest form may merely make clear that the company expects employees to be free of drugs at all times and that those who fail to comply with the rule are subject to disciplinary action and possibly dismissal.

"There's really no excuse for a company not to have a drug policy, even if it is only one sentence long," says de Bernardo. "Having a company policy against drugs is in everybody's interest." De Bernardo is the author of *Drug Abuse in the Workplace: An Employer's Guide for Prevention*, which provides information and advice for dealing with workplace drug issues. (See the sidebar below.)

Some corporations have established elaborate policies and procedures to control drug and alcohol abuse inside their organizations. General Dynamics Corp., for instance, spells out its program in a 10-page document that seems to cover almost every contingency from educating employees on the dangers of drug and alcohol use to disciplining drug and alcohol abusers. The policy requires General Dynamics to advise its employees, in writing, on "the reasons for the program, benefits for the employees and the company, employee assistance programs, effects of alcohol and drugs on individuals and their families, [and] use of inspection, alcohol tests, and drug tests."

Capital Cities/ABC, the media conglomerate, extended a substance-abuse policy to all of its broadcast and print properties after one of its employees died of a drug overdose. That policy includes employee assistance, educational efforts, and, as necessary, the use of drug tests, drug-sniffing dogs, and undercover operations.

Spurring some employers to keep their workplaces drug-free in recent months have been new legal requirements for most businesses selling goods or services to the federal government. Businesses with government contracts of less than $25,000 are not covered.

The Drug-Free Workplace Act of 1988, which became effective last March, requires contractors to publish and distribute to employees a statement prohibiting illegal drug activity in the workplace and specifying actions that will be taken against those who violate the policy. It also says contractors must make employees aware of the dangers of drugs and punish any employees convicted of criminal drug violations occurring in the workplace. Failure to comply can cost contractors their federal payments or contracts and disqualify them for future awards for five years.

That law does not require employers to include testing as part of their drug programs. But through other regulatory means, the government is beginning to lean on employers in certain key industries to test at least those employees involved in areas of defense and those whose performance could affect public safety.

Employers in the airline, railroad, bus, and trucking industries currently are scrambling to prepare for sweeping new rules, which are slated to take effect in December and which could require random drug testing of up to 4 million transportation employees.

Defense contractors, moreover, have been required since last spring to test certain employees for illegal drugs.

For most employers who are free to choose, their most crucial decision in setting up a drug program is whether to include testing. Employee and union concerns over privacy rights, the effect on workplace morale, the pressure for accuracy, and the $25 to $100 it costs to test each employee all must be considered when an employer initiates a testing program.

About 60 percent of companies with 5,000 or more employees have drug programs that include some form of testing, mostly of job applicants and employees in key positions involving workplace or public safety, according to a 1988 Department of Labor survey.

Among businesses with 50 to 99 employees, only 12 percent had drug programs in place in 1988, the latest year for which estimates are available. However, some 15 percent of the companies said they were considering implementation of a testing program.

While drug testing is not for everybody—"Testing should be done right, or not at all," de Bernardo advises—more and more employers are concluding that it can be one of their most effective tools in keeping drugs out of the work environment.

Today, companies of all sizes are joining such giants as IBM, Kodak, and DuPont in initiating drug programs that include a testing component.

Drug testing's increased acceptance extends even to business and other private organizations. Last August, the U.S. Chamber of Commerce began to screen out job applicants who use illegal drugs and notified employees that it would extend testing to employees if "there is cause to suspect an employee of drug or alcohol abuse."

As a next step, many members of the business community are looking at the drug problem beyond their own organizations. Local business people in several cities, including Jacksonville, Fla., and Washington, D.C., are forming groups to help small companies in their areas set up anti-drug programs. Meanwhile, active coalitions such as the Institute for a Drug-Free Workplace are working through Congress and state legislatures to make sure business's voice is heard and its concerns are addressed in the unfolding war on drugs.

No one doubts that the war will be long and expensive. But signs of progress are appearing. As Dr. Carleton E. Turner, a former White House adviser on drug abuse, has put it: "The fact that corporations realize they must fight drug abuse in the workplace is another significant step forward in the battle." NB

Signs Of Abuse In The Workplace

In his book *Drug Abuse in the Workplace: An Employer's Guide for Prevention*, Mark A. de Bernardo, executive director of the Institute for a Drug-Free Workplace, advises employers on how to spot warning signs of drug abuse. Some clues:

Drug paraphernalia: Glassine envelopes, crudely wrapped cigarette butts, cigarette papers, razor blades, medicine droppers, and bent teaspoons.

Suspicious behavior: Frequent visits to the washroom, secretive phone calls, dressing inappropriately for the season, wearing sunglasses indoors. Long-sleeve shirts can hide needle marks; sunglasses can cover bloodshot or dilated eyes.

Personality changes: Sudden and erratic mood or personality shifts, excessive giddiness, aggressive or depressed behavior, loss of appetite or memory.

None of these traits necessarily means a person is a drug user, of course, and employers are advised to respond to suspicions cautiously.

Drug Abuse in the Workplace: An Employer's Guide for Prevention is available from the U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Ask for Publication 6972. The price is $20 for Chamber members, $33 for nonmembers.

For more information on the Institute for a Drug-Free Workplace, write to Mark A. de Bernardo at the above address.

COMBATING DRUGS

Midnight Rescue

Late-night organized basketball in a small town has lured young men from the streets to the gyms, and drug-linked crime has fallen.

By Bradford A. McKee

In 1986, Van Standifer, then town manager of Glenarden, Md., was sure he could cut drug-related crime in his community if he could offer young people at high risk the right activity at the right time. The solution he proposed: midnight basketball.

Some people thought his idea was crazy, that he could attract neither players nor spectators to games that started late at night and ran into the early morning. But Standifer, 60, proved them wrong.

The Midnight Basketball League that he founded is booming. He designed it to appeal to the age group most likely to be involved in drug use and drug-related crime, and he scheduled games during the high-risk hours for such illegal activity. Players must be 17 to 21, and no game may begin before 10 p.m.

The league has grown to 172 young men on 14 teams playing at two gymnasiums, and standing-room-only crowds provide strong community support to the players. The town's drug-related crime has dropped by almost half.

Help from the town's businesses was essential for the league's growth. More than 40 companies—most of them small firms—contribute up to $1,500 each to the league every year, and some sponsor their own teams. The league's budget was only $2,000 in 1986. This year's budget, which pays for uniforms, officials, trophies, security, and insurance, was about $90,000. Standifer, a federal-government retiree, now devotes full time to running the league as a volunteer.

When he conceived the league, Standifer says, most companies "didn't even want to talk to me." The business people couldn't understand why the games had to start at 10 o'clock, he recalls. Given the response of young people and the public, Standifer says, nobody complains about the late center-jump time any more.

The program "has kind of snowballed in the last four years," says Laurence V. Hill, a retired Postal Service manager and member of the league's advisory board. More than two dozen other communities have expressed interest in starting similar programs.

Standifer came up with his idea after receiving a report from the police chief in December 1985 about rising crime in Glenarden, a town of about 5,500 people, near Washington, D.C. Drug-related crimes—mostly assaults, burglaries, robberies, and vandalism, and most committed by men under 25 during early-morning hours—had risen 60 percent over 1984, even during the usually quieter winter months.

"It wasn't even warm yet, and I thought, 'What's going to happen when it gets to be summer?' " Standifer says. In the following months, he formulated plans for the midnight games. By summer he had drawn a number of "troubled, idle" teens—many of them dropouts or unemployed—away from the potential drug market and onto the basketball court. Standifer says expelling drug dealers from the community is a police problem, but "to concentrate on the [drug] market, that's our problem."

David G. Berg, a Lutheran minister in Ellicott City, Md., near Baltimore, says the league not only gets young people off the streets during high-crime hours but also gives them an escape route from the cycle of crime and drugs. Berg, who helps Standifer promote the league, is a consultant to the Mark Vogel Companies, a Washington real-estate developer that has given major support to the league. Describing the league as "player-centered, not sport-centered," Berg says it gives players role models and boosts each individual's self-image. With Berg's help, 21-year-old player Mark Holmes of Seabrook, Md., found a job with a local office-cleaning company. He says Berg's interest in the players helps them "forgo any bad habit that has them leaning in the wrong direction."

Business leaders who fund the league now feel they have a hand in fighting drugs directly. Richard Weiser, chairman of the board of Tri Equity Corp., a real-estate development company in the northern Virginia area near Washington, says sponsoring his team, the Tri Equity Hoopsters, has made him aware of how his company can help solve local drug problems. "I can't think of a better way to spend money," Weiser says. "Very few programs have had such a dramatic effect on decreasing crime. It should be saying something to people." NB

PHOTO: KEN TOUCHTON

Basketball-league *founder Van Standifer, left, and volunteer promoter David Berg say the late-night games help young people.*

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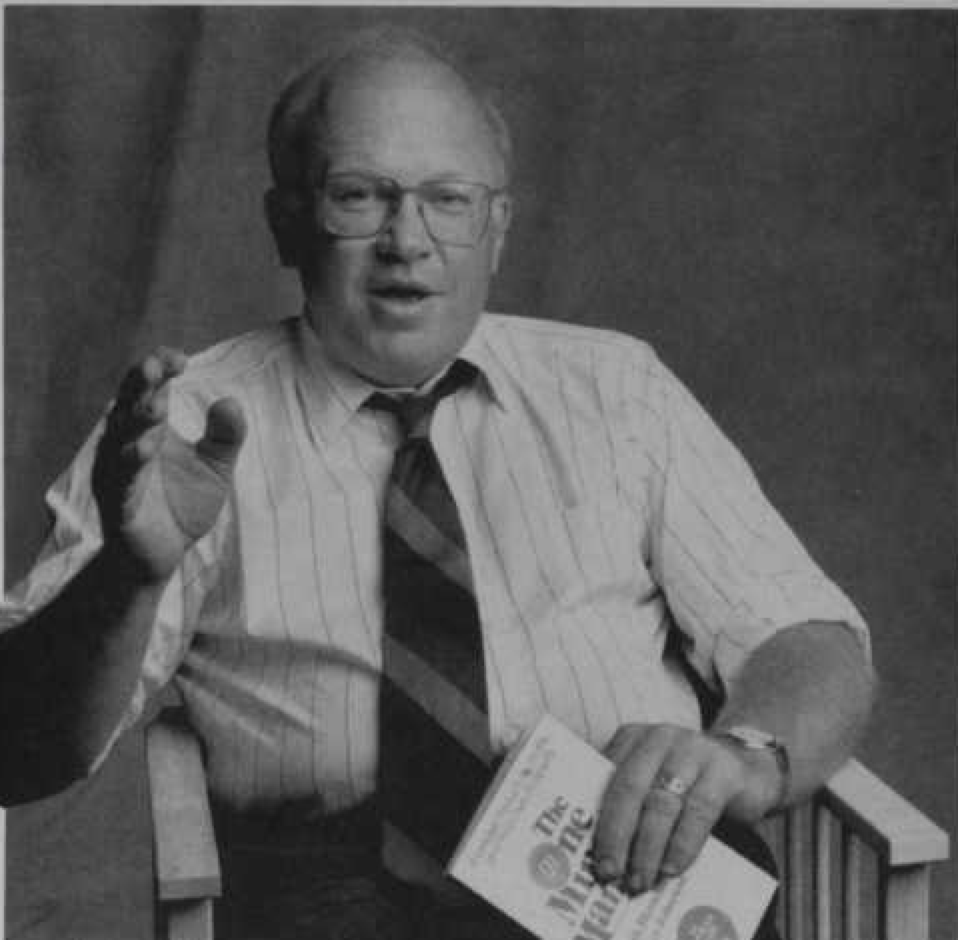

Kenneth Blanchard, Ph.D., co-author of The One Minute Manager.

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To Your Health

Managing well includes managing your own health—advice to help you do that better.

By Pam McKeown

Esophageal Pain: Another Price Of Success

Success in business often goes to the hard-driving and ambitious. Frequently, though, this striving attitude is the catalyst for such ailments as heart disease, ulcers, and high blood pressure. It can also be associated with bouts of chest pain—the kind of pain that leads immediately to thoughts of a heart attack. But often the culprit is the esophagus.

The esophagus, a muscular tube approximately a foot long and an inch in diameter, has two valves, one at the base of the throat and the other where the esophagus enters the stomach. The main function of the esophagus is to transport food and liquid from the throat to the stomach.

"If the heart has been fully evaluated by a specialist and ruled out as the source of pain, testing the esophagus is the next step," says Dr. Don Kastens, assistant professor of medicine at the University of Oklahoma Health Sciences Center in Oklahoma City.

Perhaps 90,000 to 150,000 new cases of esophageal pain are diagnosed every year, says Dr. Joel Richter, associate professor at the Bowman-Gray School of Medicine in Winston-Salem, N.C. Business people may be particularly vulnerable, he says, because they "constantly face stressful situations" that can activate esophageal pain.

More important than day-to-day stress, however, is the individual's own emotional history. According to Dr. Ray Clouse, associate professor of medicine at Washington University in St. Louis, "Long-lasting anxiety and depression are usually forerunners to esophageal problems. This isn't the same thing as stress, because stress is very short-lived." But stress can heighten pain in persons who already suffer from esophageal problems.

Esophageal pain stems primarily from two sources—acid reflux and abnormal muscular contractions.

In acid reflux, acid moves from the stomach up into the esophagus. Acid reflux often causes heartburn, which is simply a burning sensation behind the breastbone and is commonly experienced in the general population. Sometimes, Kastens says, the pain is more severe: "Some people get a chest pain that may very easily mimic the pain one gets with the heart. If it's severe, it can even mimic a heart attack."

In "nutcracker esophagus," esophageal muscles contract with two to four times the normal intensity. Symptoms include sharp pain behind the breastbone, increased acid reflux, a burning sensation, and belching. Persons suffering an attack of nutcracker esophagus usually will have difficulty swallowing, Kastens says.

The exact cause of this condition remains unknown, but in a study conducted by Richter, patients with esophageal pain were found to be "much more sensitive" to pain than a control group. "This suggests they also might have a lower pain threshold," he says. "These people tend to have sensitivity throughout the gastrointestinal tract."

Many people, Kastens says, "forget how responsive the gastrointestinal tract is to stress. If they think back, many may recall having a slight case of diarrhea before a big test or even developing chest pain when they were under stress."

Richter says that persons at risk of experiencing esophageal problems are those who score fairly high on psychological tests measuring anxiety, depression, somatization (experiencing pains associated with stress, such as headaches, abdominal pain, and diarrhea), and susceptibility to panic attacks.

"The interesting thing is that esophageal problems tend to be more predominant in women, with a 60-40 ratio," Richter says. "That ratio is pretty consistent regarding all stress-related diseases occurring in the gastrointestinal tract." Women, particularly those in business, may experience these problems more frequently because they suppress emotions such as anger, whereas men express anger more readily.

PHOTO: ©GABE PALMER—THE STOCK MARKET

Richter offers these suggestions for easing esophageal pain:

- Avoid situations that normally cause stress.
- If your life is filled with too many outside activities, curtail some of them.
- See a psychiatrist or psychologist.
- If you're in a job you really don't like, consider changing jobs or careers.
- If you're in a situation you cannot change, consider relaxation tapes, biofeedback, or short-term drug therapy.

The first thing your physician should do, though, is make sure the pain is not coming from your heart. NB

Pam McKeown is a writer and editor in the public-affairs office of the University of Oklahoma Health Sciences Center in Oklahoma City.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Paul N. Strassels

BORROWING

Bridging The Gap

ILLUSTRATION: JOHN PACK

It can happen to anyone. While you wait for a sizable check, you face mounting (and usually unexpected) bills. You may be up against the proverbial wall, perhaps because of a medical emergency, or uninsured damage to your home or car, or a college-tuition bill that you can't pay right now.

When you face a classic short-term cash-flow problem, you have to know where you can turn. You know that you cannot ignore the bills. If you do, your credit standing will go down the drain. Fortunately, you have options, some more costly than others.

There's always the quick, short-term loan at your bank, savings and loan, or credit union. It may be an unsecured 30-, 60-, or 90-day personal-signature loan, or a cash advance on your credit cards. You may have a preapproved line of credit available. The interest rates on all of these loans tend to be relatively high, with credit-card cash advances by far the most expensive.

A collateralized loan usually carries a lower interest rate, but it may take longer for you to get the funds with a collateralized loan, because you will have to pledge securities or other valuables. And that takes time.

The classic collateralized loan is the home-equity loan or line of credit. Such loans can be approved quickly, usually within four days, and constitute a prime source of quick money.

Borrowing from your firm is especially good if you work for yourself. In that case, you can tailor the loan transaction to your benefit and the firm's, especially with regard to interest rate and repayment terms. The firm can charge you a bit less than market rate and can spread out the payments according to a schedule that's best for you. Just make certain that the loan is well documented, contains a set rate of interest that conforms to the rate published by the Internal Revenue Service for insider deals, and is repaid according to its terms.

Even if you are not one of the owners of the firm, it may have a policy that allows (or even encourages) employees to borrow from the company for all sorts of needs. There are many advantages to this type of program. Compare all the terms against what you may be able to get otherwise.

If your borrowing needs are short-term, you may want to tap your individual retirement account. Most people have been warned to stay away from their IRAs because that money has been set aside for later years. That's true. But when you need to bridge that infrequent but serious cash-flow gap, an IRA is an alternative to consider.

Say you need $10,000 and you don't have it handy. You can withdraw the cash from your IRA and still avoid trouble with the IRS. There will be no 10-percent premature-withdrawal penalty, and you will not have to pay income tax on the amount withdrawn as long as you deposit the full $10,000 in another IRA within 60 days of the time you receive the distribution. You're allowed one such rollover a year. If you miss the 60-day deadline, however, you'll be roundly taxed and penalized.

What if, after 60 days, you have only $7,000 to put back into the IRA? In that instance, you would be penalized and taxed on only the unremitted $3,000.

A word of warning: Aside from the IRS requirements, many IRA owners have their funds tied up in long-term certificates of deposit, which, if cashed prior to maturity, carry a substantial early-withdrawal penalty. So, withdraw only what you need, try to get the money back within the 60-day period, and leave intact CDs that impose penalties for early withdrawal.

Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.

PAY AND PERKS

What You're Really Paid

Measuring your value in the marketplace means considering your complete compensation package. That includes your salary as well as your benefits. According to the National Institute of Business Management, a chief executive at a small or medium-sized firm draws, on average, a salary of $140,000 a year. Top executives in marketing, sales, and finance get less—between $50,000 and $80,000.

But add to your salary the value of benefits such as life and health insurance, retirement program, company-furnished car, travel-and-entertainment expense account, company-paid annual physical, tax-preparation assistance, club memberships, car phone, company parking, first-class business travel, and more. The average annual value of a benefit package is about $7,000.

HOME IMPROVEMENTS

Cost-Effective Home Improvements

Although it is still autumn, this is the best time of year to make plans for home improvements next spring and summer.

Often it can take months to decide on what you want done, solicit bids from contractors, secure the necessary approvals from the local zoning board and other authorities, and arrange for financing.

Some home-improvement projects, such as adding a room or remodeling the kitchen, require a great deal of preparation, whereas others, such as fencing your yard or painting, do not.

Embark on your home-improvement projects with two thoughts in mind:

First, you should enjoy the convenience and comfort you will add to your home.

Second, don't expect an immediate return on the money you invest in remodeling.

From a personal-enjoyment standpoint, build that deck, fence the yard, install a pool, remodel the kitchen, add skylights, if that's what you want and can afford.

But don't fool yourself into believing that these and similar improvements are good investments, because they are not. According to information gathered from national remodeling studies, there is no home improvement that returns 100 cents on the dollar when you sell your home.

The most cost-effective improvement is an energy-efficient fireplace; you can recoup approximately 97 percent of the cost of installation.

A full bath returns about 80 percent. Added insulation returns 75 percent.

The two least effective improvements are a new pool (40 percent) and a greenhouse (45 percent).

PHOTO: ©LESLIE CASHEN—UNIPHOTO

When you sell your house, *you'll never recoup what you paid for some improvements. A new pool will return only 40 percent of its cost.*

TAXES

How To Beat The Penalty For Underpaying Estimated Tax

When you fail to pay your federal income and (if you are self-employed) self-employment taxes currently throughout the year, the IRS imposes a stiff penalty for underpayment of estimated tax.

The rate is adjusted quarterly based on the prevailing prime interest rate. It is important to keep close tabs on your estimated-tax responsibility so you can sidestep this penalty.

If your unpaid-tax liability for the year amounts to less than $500, you need not concern yourself with paying estimated tax.

If, through withholding and estimated tax, you pay at least 90 percent of this year's tax tab, you eliminate the possibility that you will face an underpayment penalty.

Perhaps the easiest way to avoid the underpayment penalty is to pay, through withholding and estimated tax, an amount equal to your tax liability for the prior year.

For example, say your 1988 tax liability amounted to $12,000. To eliminate the underpayment penalty, pay $3,000 each quarter to the IRS.

Even if you have a much better year in 1989 than you had in 1988, and wind up owing the IRS an additional $20,000 on April 15, there still will be no underpayment penalty.

Pay Your Payroll Taxes On Time

Among the greatest sins in the eyes of the IRS is an employer's diversion of payroll-tax collections to another purpose.

You may sympathize with an employer who gets in a cash bind, and you may understand when he uses those taxes to pay other, more pressing debts. But the IRS never does.

In fact, the IRS considers such employers to be major targets of investigation, and it will do whatever is necessary to collect what it determines is due, plus interest.

Delinquent payroll-tax deposits are a problem. According to the IRS, employers owe the federal government more than $15 billion.

When regular collection procedures fail, the IRS will go after the personal property of those responsible for collecting the taxes.

As ominous as that sounds, the IRS is not terribly efficient in this area, according to the General Accounting Office, an arm of Congress. The GAO has found what it feels is a flaw in the collection system and has recommended to the IRS that it use its computerized systems to keep track of those company officials who owe unpaid company payroll taxes.

If the IRS adopts the GAO's recommendation, more timely payments could result.

Fewer "Comfort Rulings"

When you consider an investment or a business deal, especially one that involves significant amounts of risk and complex tax treatment, it's comforting to know, in advance, precisely how the IRS will view it.

Many savvy taxpayers have gone directly to the IRS, asking for private-ruling letters before they sign on the dotted line, feeling that the few hundred dollars such a ruling costs is well worth the price.

Unfortunately, such comfort will soon become unavailable in the majority of cases. The IRS has announced that, beginning next February, it will no longer issue "comfort rulings" for taxpayers when it determines that the tax issues involved are adequately addressed by the law, regulations, or other published authority.

The IRS argues that private-ruling letters take too much time to research and issue, so it will no longer let taxpayers know the potential tax effects of a future transaction unless extraordinary circumstances exist. NB

For Your Tax File

New rules on 401(k) plans; more on takeover expenses.

LOANS

Rules For Borrowing From Retirement Plans

Many tax-qualified retirement plans, including most section 401(k) plans, allow participants to borrow from the plans. After a gestation period of almost 15 years, the Labor Department now has issued regulations governing these loans. Some of the department's positions will require changes in the manner in which loan programs operate.

The regulations try to apply a single set of rules to two very different types of transactions. The vast majority of plan loans are made from, and secured by, the borrower's own account. Nothing about the loan—repayment, default, or interest rate, regardless of whether it's high or low—has the slightest effect on any other participant. However, a few plans make conventional loans to participants, with each loan becoming one of the plan's investments.

PHOTO: DAVID VALDEZ

New rules *issued by the Labor Department regulate borrowing from retirement plans, such as 401(k) plans. Some of these changes will require firms to alter their loan programs.*

The Labor Department obviously wrote its regulations with both eyes mostly on the second, less common type of loan. The aim is to make sure the loan is a good investment for the plan, is adequately secured, and bears a market rate of interest. This objective is of much less importance when a participant borrows only from himself, in effect. Nevertheless, the regulations decline to recognize any distinction between the two types of loans.

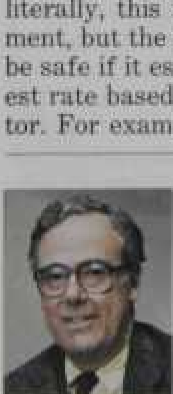
To satisfy the regulations' interest-rate requirements, plans must determine what a commercial lender would charge for a comparable loan. Taken literally, this is a burdensome requirement, but the typical plan will probably be safe if it establishes a uniform interest rate based on some accepted indicator. For example, it could be the prime rate plus some number of points.

The regulations generally allow a loan to be secured by the borrower's account balance, provided that no more than 50 percent of the balance, at the time the loan is granted, is used as security. Under another tax rule, many plans permit a larger percentage of the account to be pledged if the loan is $10,000 or less. These plans now either must adopt the rule of 50 percent across the board or must ask for additional collateral.

As one might expect, loans must be made available on an equivalent basis to all participants, not just to a favored few. For administrative convenience, plans are allowed to set a minimum loan amount, which may not be higher than $1,000. Hence, in a plan where loans are made only from a participant's own account, anyone with a balance of less than $2,000 could be precluded from borrowing.

The introduction to the regulations—but not the regulatory language itself—insists that loans must be made available not only to current employees but also to former employees whose plan accounts have not yet been distributed to them. Since most plans rely on payroll deductions for repayment of loans, lending to former employees could necessitate a completely new set of procedures.

The new rules took effect with loans made or renewed after Oct. 16. The sanction for failure to comply is the imposition of penalty taxes on participants who take out loans.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

DEDUCTIONS

Takeover Expenses, Continued

Last month, we discussed a Tax Court opinion on deductibility of expenses incurred by a takeover candidate, the fictitious "Target Co.," in negotiating a friendly merger. The expenses involved a "fairness letter" from an investment banker plus legal fees for negotiating and structuring a transaction. The court held the expenses were not deductible—not because they were "reorganization" expenses, as the IRS had claimed, but because Target's board of directors had concluded the capital restructuring was in the shareholders' best interest and the expenses for that restructuring were part of a long-lived asset without a determinable life. Thus, they could not be currently deducted.

In an earlier case, involving an unwanted approach by "Predator" and a determination by Target's board that the offer was not in the shareholders' best interests, the IRS concluded that Target's expenses were currently deductible. Target asked an investment banker to issue a fairness letter as to Predator's offer and to find a White Knight with whom a friendly sale could be negotiated. White Knight was found, it purchased Target, and Target paid the fees from the investment-banking firm plus part of Predator's expenses. IRS, emphasizing defense against raiders as an important part of the board's fiduciary responsibilities, held that Target's payment of the expenses resulted in current deductions.

It would be too easy to conclude that Target's expenses are deductible in a hostile takeover but are not deductible in a friendly one. The law in this area does not appear totally settled; it is likely that there will be more to read on this subject as future cases develop. NB

Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore and Bradford A. McKee

SERVICES

ILLUSTRATIONS: PETER BONO

Wash And Roll

I am interested in purchasing a coin-operated bowling-ball cleaning machine and starting a vending business. Where can I find manufacturers?
D.S., Klamath Falls, Ore.

Two or three wholesalers supply bowling-ball polishers for most of the 8,000 bowling alleys in the U.S. The machines cost a little over $4,000 and generally are not sold at retail. You may have to go through a bowling alley or a pro shop to buy a polisher.

The National Bowling Council can refer you to companies that might sell you a machine, says office manager Brenda Coates. You can write to the council at 1919 Pennsylvania Ave., N.W., Suite 504, Washington, D.C. 20006; or call (202) 659-9070.

RETAILING

Computer Connections

I have decided to start my own computer store. I plan to market most makes and models. Where can I obtain a list of distributors and wholesalers of computer products?
S.C., Los Angeles

Your success will depend on your store's location and your financing, and you will have to "offer something pretty unique" to break into this highly saturated market, says Leigh Sutherland, manager of computer markets at the National Computer Dealers Forum (NCDF). She can give you planning guidance and market information on computer dealerships. Your competition will range from sophisticated dealers with service centers to discount stores selling "low-end" brand-name compatibles. NCDF operates out of the National Office Products Association, and Sutherland suggests you look at the association's *Blueprint for Business Planning*, a $30, 30-page, step-by-step booklet. NCDF also offers *Computer Market Potential Analysis*, which costs $200 for a complete report on all states or $60 for "single-market" reports for more specific areas. NCDF is at 301 N. Fairfax St., Alexandria, Va. 22314-2696; (703) 549-9040.

Executive Gifts

I am interested in opening an executive-gift store. Could you tell me where to get potential contacts and where to obtain trade publications?
Y.V., Sun Valley, Calif.

Executive gifts represent a quickly growing sector of the gift industry. The Gift Association of America (GAA) can send you a list of trade publications for the gift industry, including directories of suppliers. Write GAA at P.O. Box 147, Royersford, Pa. 19468.

Jennifer DeCock, managing director of GAA, also suggests you contact American Business Directories, which publishes lists of gift shops. The national list costs $495 and contains 68,946 names; the Eastern region list, $320, contains 39,000 names; and the Western region list, $280, has 29,767 names. Contact ABD at 5711 S. 86th Circle, P.O. Box 27347, Omaha, Neb. 68127; (402) 593-4600.

WOMEN

Hard-Hat Area

I am interested in obtaining information on women going into business, specifically construction and/or land development. I need information on starting up and financial backing.
J.T., Harrisburg, Pa.

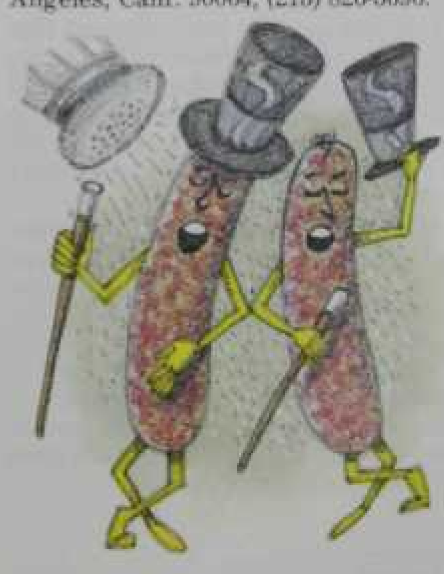
The National Association of Women in Construction (NAWC) acts as a national network for women in all areas of the industry, says Kim Brockelman, membership marketing coordinator. NAWC operates out of more than 200 local chapters in the U.S. Brockelman says she can provide you with the name of a person in your area who can help you find the information you need to get started. Contact Brockelman at NAWC, 327 S. Adams St., Fort Worth, Texas 76104; (817) 877-5551.

MARKETING

Sausage Saver

I would like to introduce my preservative for sausage at food trade shows. Where can I obtain a nationwide list of food trade shows?
M.J., La Jolla, Calif.

Trade Show Week Data Book, an annual publication from *Trade Show Week* magazine, lists trade shows by industry classification, and it cross-references shows by time and place. It costs $225, but you may be able to look at a copy at a local convention center. For more information, contact *Trade Show Week*, 12233 W. Olympic Blvd., Suite 236, Los Angeles, Calif. 90064; (213) 826-5696.



CHANGING HANDS

Selling An Idea

How would one go about finding a purchaser for a newly conceived business in the service industry? We would rather sell the concept than let it die.
R.R., Albany, Ga.

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"You can read books full of business

concepts," he says, "but that doesn't mean that anyone will pay more than the price of the book for them."

Selling A Business

My partner and I own and operate a small metal-stamping business. My partner wants to retire in the near future. I am reluctant but must respect his wishes. How do we go about selling? How do we determine a selling price? Where do we advertise such a business to get the best possible exposure?
C.S., Van Nuys, Calif.

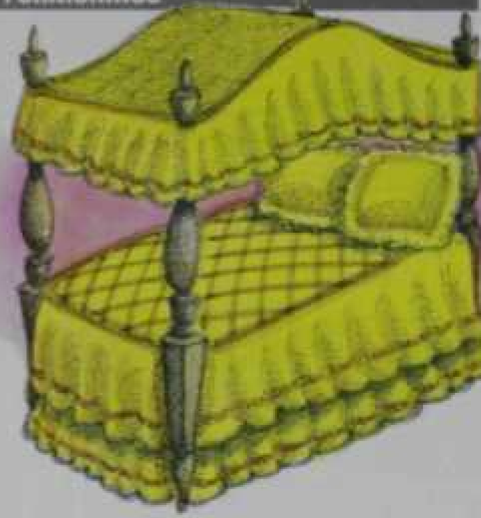
First, ask yourself if the business really must be sold.

Can you buy out your partner? Can you find another partner, either an active or a silent one? Perhaps you should search for an investor or apply for a bank loan. Do you need another person to run the business? If not, then don't sell it.

If you do decide to sell your business, find a business broker who is familiar with your industry, one who will know the value of your inventory and equipment.

Whether you advertise to others in your industry depends on the nature of your competition; will it help you or hinder you in getting the best sale price by selling to a competitor?

FURNISHINGS



Sheet Shop

I am considering opening a shop selling linens for the bed and bath, and I would like to find a source of wholesale inventory.
B.R., Hanover, Pa.

Anne Bertsch, director of public relations for the National Bath, Bed and Linen Association, says the best market is still in affluent areas, and more specialty linen sales are moving from department stores to small shops. She can give you statistics, marketing information, and a directory of suppliers from linen trade shows. The directory costs $5; the other information is free. Contact the association at 15 E. 26th St., Suite 1602, New York, N.Y. 10010; (212) 689-5550.

ENTREPRENEURSHIP

Coffee And Tea

I am interested in opening a gourmet coffee and tea specialty store. How would I obtain information on marketing, wholesalers, and suppliers?
K.B., Houston

Write or call Jane McCabe, editor of the *Tea and Coffee Trade Journal*, 130 W. 42nd Street, New York, N.Y. 10036; (212) 391-2060. The journal, a monthly, costs $18 per year. It contains articles on tea packers, coffee mills, coffee- and tea-producing countries, plus a technical coffee column.

The publisher of the journal also offers *Ukers' Buyers' Guide*, a so-called bible for the tea and coffee industries. *Ukers'* costs $25 and includes the names and addresses of many suppliers to the U.S.

For coffee information only, you should contact the Coffee Development Group, 1400 I Street, N.W., Suite 650, Washington, D.C. 20005; (202) 682-4034. The organization's customer-service department can supply you with consumer information, promotional materials, audiovisual training materials, and marketing studies.

OWNERSHIP

Teaming Up

My husband and I own a successful take-out sandwich shop. We've been approached by several business people who want us to enter partnerships and open more stores. Can you recommend some good reading material dealing with partnerships before we seek costly legal help?
A.L., Jupiter, Fla.

A good source of information on the legal aspects of partnerships is the *Coopers & Lybrand Guide to Growing Your Business*, by Seymour Jones, M. Bruce Cohen, and Victor V. Coppola (John Wiley, $17.95). The book describes types of partnerships, liabilities, and taxation. The textbook *Effective Small Business Management*, by Norman M. Scarborough and Thomas W. Zimmerer (2nd ed., Merrill Publishing, $31.95), offers helpful information on the advantages and disadvantages of partnerships, agreements, and taxation.

Two For One

My wife is the sole proprietor of our small, home-based business. We would like to establish a joint, husband-wife ownership of this sole proprietorship without forming a partnership (to keep the advantages of a sole proprietorship). How do we do this?
T.K., Poway, Calif.

For information on California's laws on sole proprietorships, call the legal department of the California Secretary of State, (916) 445-0620. Because Poway is an unincorporated area of San Diego County, you may need to register your company with the county sheriff, (619) 531-3975, if your business will be there.

HOW TO ASK

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact "Your Small Business Survival Guide," at $3 a copy. To order, call (202) 463-5433 or write to Diane Lewis at the address above.

COMMENTARY

Where I Stand

Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.

1. Give Business Latitude In Drug Testing?

A bill by Rep. John Dingell, D-Mich., would extend public-sector drug-testing rules to businesses. Opponents of the bill believe these rules are too detailed and restrictive. For example, they contend, the regulations unnecessarily restrict what substances can be tested for and set unrealistically high thresholds for testing "positive." Proponents believe tight restrictions and high thresholds are essential to safeguarding individuals' rights. Should businesses be given more latitude than the Dingell bill allows in testing prospective and current employees?

2. Send Troops To Nations Battling Drug Traffickers?

ıere I Stand
)TE On These Issues

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e #1	☐	☐	☐
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of all employer-paid tuition?

Make firms bear costs of workplace changes to accommodate the handicapped?	12%	81%	7%
Should the U.S. embrace tied aid until others abandon it?	39%	32%	29%

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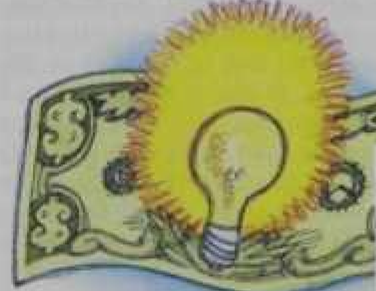

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partner wants to retire in the
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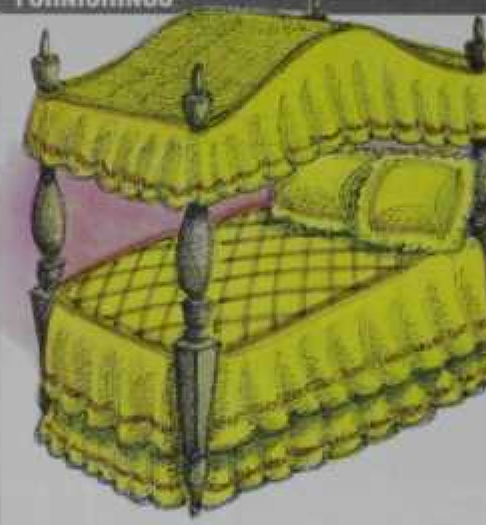

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2. Send Troops To Nations Battling Drug Traffickers?

The armies amassed by some drug traffickers rival the armed forces of their home countries. Opinion is divided on whether the U.S. should comply if asked by Colombia or another country for combat troops to help in battling drug kingpins. Proponents believe such intervention would be appropriate in view of the vast amounts of cocaine and other illegal drugs crossing our borders daily. Opponents believe Americans' lives should not be risked in other nations' domestic conflicts. If asked, should the U.S. send troops abroad to fight drug traffickers?

3. Should Drug Use Be Legalized?

At the same time President Bush and Congress are calling for an escalation of the domestic and foreign wars on drugs, some in the public and private sectors are calling for decriminalization of illicit substances. They argue that the U.S. cannot deter Americans from using drugs and legalization would reduce drug-related crime. Opponents contend that legalizing drugs would give them official approval and lead to sharply increased use by workers on the job, pregnant women, school children, and motorists, among others. Should drug use be legalized?

Verdicts On September Poll

Here is how readers responded to the questions in the September issue.

	Yes	No	Undecided
Extend the tax-free status of all employer-paid tuition?	83%	13%	4%
Make firms bear costs of workplace changes to accommodate the handicapped?	12%	81%	7%
Should the U.S. embrace tied aid until others abandon it?	39%	32%	29%

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Illinois Woman Reveals Little Known Secret That Made Her $60,000 In Just 90 Days

By Ed Hirsch, Special Feature Writer

JOLIET, IL—You may have read about Nancy Freeman in leading business publications or seen her on network TV. A highly-successful real estate broker, Freeman owned some apartments in her hometown of Joliet, Ill. About 8 years ago, she heard about Property Valuation Consultants, a company that lowered real estate taxes. PVC did the job and saved her thousands of dollars for which it received a percentage of the savings.

Several years later, she was approached by PVC to offer their services to her property-owning clients. Representing the company one morning each week, she netted better than $60,000 in just 90 days! Freeman soon bought PVC, and the 15-year old company is now embarking on a major program setting up PVC affiliates in all 50 states.

One of the best kept secrets is that property owners can actually appeal their real estate assessments. Nationally, fewer than 2% of all assessments are ever challenged. But a recent study of 10 major cities shows that 4 out of 5 assessments were reduced on appeal. "Most people don't even know how to attempt it," says Freeman, "and we handle everything for them in a win-win situation."

According to Freeman, "With correctly assessed property more often the exception than the rule, the market for PVC is wide open." Using a copyrighted system, PVC represents the property owner on a contingency basis, receiving from ⅓ to ½ of the savings. Most clients renew yearly, which is how an incredible residual income can be built up.

PVC affiliates pay a $9,900 start-up fee which includes comprehensive training, manuals, materials, forms and just about everything else needed to get started. Ongoing consulting is also included; PVC and its staff work closely with each affiliate walking them through the various steps involved in working with clients.

"This business can be run out of a small office or even a home," says Freeman. "All you need is a phone. We show our trainees how to attract as many qualified clients as they can handle," she adds. "Just 50 clients per year can net over $100,000, and we serve more than 1,500 clients in any given year here in Joliet, a city of only 73,000 people."

PVC has hired motion picture and television actor Eddie Albert as its national spokesman and has offered to send complete details and a free videotape to interested parties. Call or write Rick Neiswonger, PVC Marketing Systems, 12033 Gailcrest, St. Louis, MO 63131, (314) 997-5500.

Classified Ads

Classified Information

To place a classified ad CALL TOLL FREE 800-424-6746 (in Washington, DC call 463-5640) or write Nation's Business Classified, PO Box 1200, Washington, DC 20013.

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COMMENTARY

Productivity: Key To Growth

By *Warren T. Brookes*

You would never know it from the news media or the politicians, but U.S. manufacturing is now more muscular and competitive than at any time since the 1960s.

Indeed, the manufacturing sector's tough-minded controls over costs and inventories make up one of the principal reasons that the U.S. economy thus far has outlasted the severe credit tightening of the Federal Reserve over the past 18 months. The International Monetary Fund's most recent analysis shows that U.S. unit labor costs (the cost of labor per unit of output) in manufacturing are now 33 percent lower than West Germany's and nearly 40 percent below Japan's.

While part of that favorable trend is the result of the lower value of the dollar, the principal reason is that since 1981, U.S. manufacturing productivity has risen at the fastest rate in postwar history—over 4 percent a year. At the same time, manufacturing unit labor costs have risen less than 1 percent a year, marking the best cost performance in U.S. history and a complete turnaround from the 1970s.

This is why U.S. merchandise exports have been rising a husky 20 percent a year since 1986, and this trend has continued in 1989; manufacturing productivity rose more than 3 percent in the second quarter, while unit labor costs were flat. As a recent Bear Stearns newsletter explained it: "The bottom line for manufacturing is productivity growth and cost control. International comparisons still indicate that U.S. manufacturing enjoys a sizable competitive advantage. Bravo."

Productivity gains have kept the U.S. economy healthy, but further growth is threatened by congressional efforts to impose new costs on business through compulsory health insurance, a higher minimum wage, child-care programs, and other mandates.

The big danger, as always, is not as much with the Federal Reserve as it is with Congress, which nearly always has been an enemy of U.S. competitiveness. During the 1970s, for example, when the U.S. saw its greatest decline in productivity and competitiveness, the Congress was engaged in its own greatest legislative productivity. Its output soared from an average of under 2,500 pages of enacted bills per session in the 1960s to more than 3,500 in the 1970s. This in turn produced an explosion in the *Federal Register*, from an average of 20,000 pages of new rules in the late 1960s to more than 60,000 a year in the 1970s, reaching 87,012 pages in 1980.

We should not be surprised that this onslaught coincided with the worst four-year competitiveness performance in U.S. manufacturing history, from 1977 to 1981, when output per hour rose less than 1 percent a year, while unit labor costs shot up an awful 8.7 percent a year.

Since 1981, Congress's output has fallen sharply, as have the annual additions to the *Federal Register*, which now are back below 60,000 pages. Unfortunately, this year Congress is busier than ever cooking up a whole slew of cost impositions on U.S. industry. They include everything from minimum-wage hikes to a host of mandates—concerning health insurance, child care, parental leave, and workplace accommodations for the disabled—to one of the most aggressive environmental onslaughts ever seen.

Meanwhile, the administration is still reeling from the massive paperwork assault from the Omnibus Trade and Competitiveness Act of 1988. Murray Weidenbaum, the estimable economist who runs the Center for the Study of American Business, at Washington University, in St. Louis, states in a recent report that this 467-page law is "an example of the inability of Congress to control itself."

Hidden in this law, Weidenbaum found, are mandates by Congress for "a host of new studies, reports, advisory committees, interagency groups, meetings, seminars, and conferences to feed the insatiable curiosity of members of Congress. Nowhere is there any indication that this paperwork will be costly."

How costly? Weidenbaum found no fewer than 272 reporting and paperwork requirements, which he says will force the executive branch "to reverse the recent trend toward reducing the paperwork burden of the federal government." Even as Congress tries to lock up more forests, he adds, "ecologists should mourn for all the trees that will be cut down to provide the paper" for what surely will be an incredible array of studies and reports, "few of which will enhance U.S. trade or competitiveness."

Weidenbaum documents that array in his 19-page report. The State Department, for example, must produce 219 new reports; the Commerce Department, nine new reports and two new committees; the Agriculture Department, nine new reports; and the president's staff, eight new reports and two new committees.

What is the reason for these new reporting requirements? Weidenbaum says: "It appears that Congress votes for a new study or report as a 'consolation prize' for a member whose substantive legislative proposal is rejected. The report or study serves to keep the idea alive."

Congress obviously has failed to learn how to "just say no" to itself. "It is ironic," Weidenbaum notes, "that a legislative body that is so alert to shortcomings in the rest of the economy is oblivious to the impacts of its own actions."

The most beneficial action that Congress could take for U.S. competitiveness just might be to go home for a long, long vacation. NB

Warren T. Brookes is a nationally syndicated columnist on economic issues.

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Visas For Skilled Workers

A well-established practice for many U.S. firms is to sponsor highly skilled legal immigrants to fill critical jobs when workers with such skills are in short supply in the domestic work force.

In a competitive and increasingly global economy, skilled immigrant workers are often needed to help to introduce a new product or service, which will in turn create employment for U.S. workers. However, such immigration has been limited to 54,000 visas per year—far short of the number needed.

Immigration legislation should increase the transfer of international personnel, modernize current rules to accommodate business needs, promote economic development, improve the ability of business to recruit skilled foreign employees, and reduce the costs of complying with rigid rules of entry for business personnel.

Recently, the Senate passed S. 358, which would increase business immigration by 30,000 visas per year.

Similar legislation has been introduced in the House, including H.R. 672, by Rep. Howard L. Berman, D-Calif., and H.R. 2448, by Rep. Hamilton Fish Jr., R-N.Y. The House is expected to take up the business immigration issue this fall.

Contact your representatives and urge support for expanded employer-sponsored immigration—a move that would make U.S. businesses more competitive.

PHOTO: © IRA WEXLER—FOLIO INC.

Line-Item Veto

The federal fiscal year that began Oct. 1 will be marked by at least $100 billion in deficit spending. A presidential line-item veto would be an important tool to help establish and maintain fiscal responsibility.

A line-item veto would enable the president to veto a portion of a bill rather than the entire measure. Congress's tendency to attach expensive and unnecessary projects and programs to important bills could be effectively countered through the line-item veto.

Currently, the president has no way to block such spending other than the veto of an entire bill, a prospect that, in most cases, is unrealistic and politically unsupportable.

The U.S. Chamber of Commerce supports a line-item veto, preferably a constitutional amendment to give the president explicit line-item veto authority. This, along with a constitutional amendment to require the federal government to balance its budget annually and a supermajority in Congress to raise taxes, would make government more responsible and accountable to taxpayers. The lack of such firm restraints, which cannot be readily evaded, is a major reason why federal spending has not been brought under control and the spending forces in Congress keep crying for higher taxes as an alternative to fiscal discipline. Several line-item veto bills have been introduced in Congress, and one may be considered soon by the Senate.

Contact your representatives and senators, and urge support for giving the president line-item veto authority.

Debate On Clean Air

The debate over proposed revisions to the Clean Air Act is heating up in Congress. Several bills dealing with acid rain, nonattainment of air-quality standards by U.S. cities, and control of air pollutants are being considered.

Chief among these measures are President Bush's proposals, H.R. 3030 and S. 1490. The administration's plan calls for controlling acid rain by the year 2000 through a 10-million-ton reduction in sulfur dioxide emissions and a 2-million-ton reduction in nitrogen oxide emissions.

The plan also requires most cities to attain the air-quality standard for ozone by the year 2000, and it would cut emissions of toxic air pollutants from major industrial sources by at least 75 percent within 10 years.

Proponents of tougher clean-air standards and controls are offering amendments to the president's proposals.

Business supports clean-air strategies that protect public health at the lowest social and economic costs. The Clean Air Act affects economic growth by dictating where industrial facilities can be located and whether they can be expanded. Cities that failed to meet the current law's deadlines for achieving national air-quality standards may soon face tough new emission controls or bans on industrial construction or both—controls and bans that may not necessarily result in cleaner air but could have a severe economic impact for communities.

Contact your representatives and senators. Urge support for clean-air measures that protect public health and bring communities into compliance with air-quality standards—at the lowest social and economic costs.

COMMENTARY

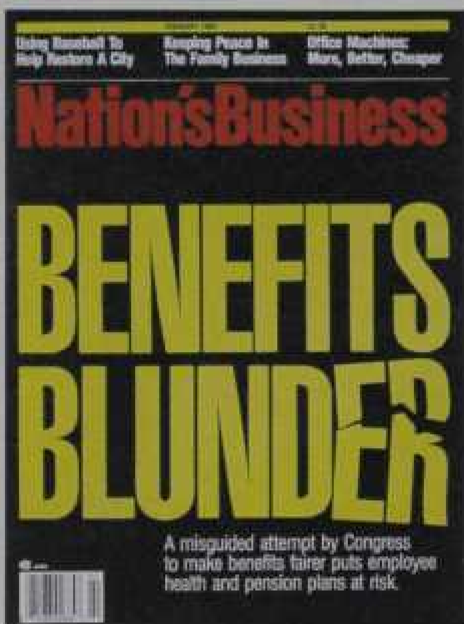
Editorial

The Washington establishment said it couldn't be done, but a grass-roots business campaign carried the day.

How The Good Guys Won The Battle Of Section 89

"The Chamber is launching a major offensive to repeal Section 89. . . . We are marshaling all of the Chamber's resources—grass-roots, media, and legislative—for this effort."

The U.S. Chamber of Commerce made that declaration early this year as it began an all-out battle that the Washington establishment said could not be won. The goal was to relieve business of a burden that was costly, complex, and counterproductive but nevertheless had seemingly invincible support in Congress. But as a result of the Chamber campaign, the House of Representatives passed a repeal bill by an overwhelming vote and sent it to the Senate, where there also was strong support for abolishing the law.



Events leading to the turnaround in congressional sentiment on Section 89 offer a classic case history of effective business leadership in Washington.

While Section 89 had been offered as a way to assure equity in health benefits at all pay levels, real-world application showed it was more likely to eliminate health coverage.

In launching its drive for repeal of the law, the U.S. Chamber pointed out: "Section 89 has sparked more confusion and outrage in the small-business community than any other issue in recent memory. This law requires employers to collect, maintain, and update vast quantities of information. . . . Many smaller companies, as they discover the complexities of compliance, will decide not to offer benefits at all."

This publication presented the first broad overview of what Section 89 held in store for small business under the cover headline: "BENEFITS BLUNDER." The headline on the article: "Government Gone Crazy."

When the Chamber's educational campaign showed that Section 89 posed one of the most serious challenges ever to small business, organizations representing those businesses reacted in different ways.

Some sought a compromise rather than confront the law's chief defender, Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee.

Fortunately for small business, not all business organizations accepted the conventional wisdom that Rostenkowski's opposition ruled out any hope of repeal.

As the organization with the longest and most effective track record of bringing grass-roots pressure to bear on Congress for the good of the enterprise system, the U.S. Chamber of Commerce assumed the leadership role in the uphill fight against the congressional power structure.

The key to the eventual congressional willingness to repeal the law was the steadfastness of the Chamber and other members of a coalition that refused to compromise. Those organizations were offered proposed changes under the heading of "simplification" or delay in fully implementing the law. Responding to an offer of delay, the U.S. Chamber declared: "The time has come to quit stalling and repeal Section 89." To an offer of compromise: "When we talk to our members, they don't want to talk about this improvement or that. They want repeal."

That firm stance reinforced the overall business campaign for repeal by keeping some waverers in line. For example, *Congressional Quarterly*, a highly respected, nonpartisan publication of legislative information, noted that some elements of the business community had responded positively to one offer to retain a revised version of Section 89. They did so assuming that repeal was too high a goal.

Citing the National Federation of Independent Businesses (NFIB) as one of them, *Congressional Quarterly* reported: "The NFIB ultimately decided to stay on the pro-repeal bandwagon. The group's decision was influenced by the hard line that the Chamber of Commerce had taken on Section 89. The NFIB and the Chamber are longtime rivals for the affection of the small-business community, and [chief NFIB lobbyist John] Motley said he worried that if NFIB backed down, it would be vulnerable to accusations by the Chamber that it had sold out small business."

The Chamber's efforts for repeal were also cited by *The Wall Street Journal, The New York Times, The Washington Post, Chicago Tribune, The Miami Herald, Birmingham News, The Kansas City Star, The Los Angeles Herald-Examiner*, and other publications.

As the firestorm of protest grew, Rostenkowski was forced to retreat. Small business, not the Washington power brokers, had become the driving force on the issue.

The historic victory is one that has the immediate benefit of eliminating a foolish law that would have hurt the very people it purported to help. And it will have the long-range benefit of giving Congress pause before it takes any such misguided actions in the future. NB

Free-Spirited Enterprise

Fresh thinking from the frontiers of American commerce.

By Janet Lowenstein

TECHNOLOGY

R2D2, Move Over. Here's Newton!

If your personal computer isn't giving you all the help you need, maybe you need Newton.

This personal robot can take and record your messages, remind you of your appointments, and start your coffee. It understands and acts on instructions,

answers questions, and never talks back.

Developed by SynPet of Boise, Idaho, Newton is 34 inches tall and 18 inches wide, has a rotating head and a textured polyethylene outer shell, and is powered by a rechargeable battery. Two microcomputers form the basis of Newton's intelligence, with a 20-megabyte hard disk providing long-term memory. Application programs run on an IBM PC XT equivalent system, and all internal control functions are driven by a powerful microcomputer.

All this for only $7,995. And Newton will work for you without ever asking for a raise.

ILLUSTRATIONS: KELLY RICHARD

Computer Rainbow

Would you like a little color in your life? PC/Hardware Custom Color, in College Park, Md., will paint your PC monitor, keyboard, and CPU cases for about $480. You choose the color—gloss or semigloss—and ship the machinery. Monogramming is extra.

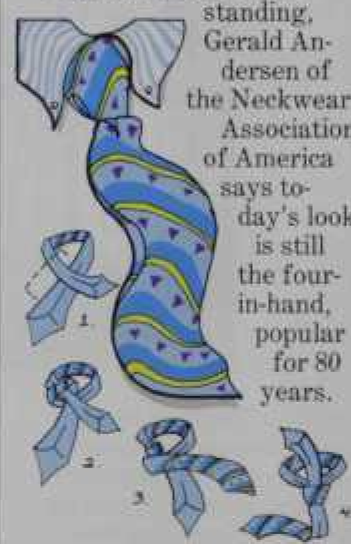
FASHION

A Knotty Problem

Jerry Pratt, 92, thought Minneapolis TV anchor Don Shelby, 42, tied a crooked necktie, so he set Shelby straight, says *The New York Times*. Pratt, who retired from the U.S. Chamber of Commerce in 1962, demonstrated what he calls the perfect knot, now dubbed "the Shelby."

You tie the Shelby as shown, (1) wrong side out and the wide end under. (2) Then wrap the wide end over and under the short end and pull tightly. (3) Next, take the wide end across to the right, (4) pull it under, and thread it through the knot.

The new knot notwithstanding, Gerald Andersen of the Neckwear Association of America says today's look is still the four-in-hand, popular for 80 years.



HELP WANTED

For Love Or Money

Is a picture worth a thousand resumes? The Video Employment Agency in San Diego thinks so. It joins faces with resumes.

At VEA, employers shopping for potential workers can browse for free through its "library" of still photographs, videotaped interviews, and personal data sheets. For the name and phone number of a candidate, employers pay $100 ($250 for three). Job candidates pay nothing.

Owner Victoria Parker patterned her agency after her two successful video dating services, where single men and women can view videotapes of prospective dates and make selections.

"If video worked for people's love life," Parker says, "why wouldn't it work even better for employment?"

"Thank you for the blessings of the last year which, of course, we have listed on our tax returns."

CARTOON: A.J. TOOS

COMING FEATURES IN *NATION'S BUSINESS*

Nostalgia	Business opportunities abound in the nostalgia boom.
Quality Control	A quality-control program that worked for one utility company may work for you.
Financial Planning	How good planning can help small businesses.
Education	Businesses are going back to school to contribute to educational improvements.

At Hitachi, the sky's the limit.

One day, this toddler's children will watch her first steps.

Astronomers study supernovas in the hope of learning more about the birth of the universe. So when Supernova 1987A burst into glory, the scientific community turned to a Japanese satellite named Ginga. High above Earth, it collects data which could prove crucial in their quest.

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All of this is explained by the fact we're a US$48 billion company.* We're involved in most everything.

It goes to show that Hitachi is as adept at creating products that are light-years apart as we are at creating technologies that are light-years ahead.

*US$48,496 million; net sales for the year ending March 31, 1989. US$1 = ¥132.

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